



Annual Report 2006
regarding its actions and
the securities markets



**Annual Report of the CNMV 2006
regarding its actions and the securities markets**

Comisión Nacional del Mercado de Valores
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Abbreviations

ABS	Asset-backed securities (Bonos de titulización de activos, BTA)
AIAF	Association of securities brokers (Asociación de Intermediarios de Activos Financieros)
ANCV	Spanish National Numbering Agency (Agencia nacional de codificación de valores)
ANNA	Association of National Numbering Agencies
ASCRI	Spanish Venture Capital Association/Asociación española de entidades de capital-riesgo
AUD	Unified Disclosure Application
AV	Broker (Agencia de valores)
AVB	Broker and market member (Agencia de valores y bolsa)
BME	Bolsas y Mercados Españoles (Holding company for various securities-related entities)
BOE	Spanish Official State Gazette (Boletín Oficial del Estado)
BTA	ABS, Asset-backed securities (Bonos de titulización de activos)
BTH	MBS, Mortgage-backed securities (Bonos de titulización hipotecaria)
CADE	Public Debt Book-Entry System (Central de Anotaciones de Deuda del Estado)
CESFI	Financial Stability Committee (Comité de Estabilidad Financiera)
CESR	Committee of European Securities Regulators
CI	Credit Institutions
CNMV	National Securities Market Commission (Comisión Nacional del Mercado de Valores)
CSD	Central Securities Depository
CSR	Corporate Social Responsibility
EC	European Commission
ECB	European Central Bank
ECR	Venture Capital Firm (Entidad de capital-riesgo)
EMU	Economic and Monetary Union / Euro area
EPA	Spanish Labour Force Survey (Encuesta de Población Activa)
ESI	ISF, Investment Services Firm (Empresa de servicios de inversión)
ETF	Exchange Traded Fund (Fondo de inversión cotizado)
EU	European Union
FI	Mutual Fund (Fondo de Inversión)
FIAMM	Money Market Fund (Fondo de inversión en activos del mercado monetario)
FII	REIF, Real Estate Investment Fund (Fondo de inversión inmobiliaria)
FIM	Securities Investment Fund (Fondo de inversión mobiliaria)
FTA	Asset-backed fund (Fondo de titulización de activos)
FTH	Mortgage-backed fund (Fondo de titulización hipotecaria)
GDP	Gross Domestic Product
IAASB	International Auditing And Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIC	Collective Investment Scheme (Institución de inversión colectiva)
IIMV	Instituto Iberoamericano del Mercado de Valores
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
ISIN	International Securities Identification Number
LATIBEX	Latin American Securities Market
LMV	Securities Market Law (Ley del Mercado de Valores)
MAB	Alternative Stock Market (Mercado Alternativo Bursátil)
MBS	Mortgage-backed securities
MEFF	Spanish Financial Derivatives Market (Mercado español de futuros y opciones financieros)

MiFID	Markets in Financial Instruments Directive
MFAO	Olive Oil Futures Market (Mercado de Futuros del Aceite de Oliva)
MMU	CNMV Market Monitoring Unit
MTF	Multilateral Trading Facility
MTS	Market For Treasury Securities
MOU	Memorandum of Understanding
NIC	IAS, International Accounting Standards (Normas internacionales de contabilidad)
NIIF	IFRS, International Financial Reporting Standards (Normas internacionales de información financiera)
NPISH	Non-Profit Institutions Serving Households
OECD	Organisation for Economic Co-operation and Development
OTS	Organised Trading System
PER	Price Earnings Ratio
PYME	SME, Small and Medium-sized Enterprise (Pequeña y mediana empresa)
RENADE	National Register for Greenhouse Gas (GHG) Emission Allowances (Registro Nacional de los Derechos de Emisión de Gases de Efectos Invernadero)
RD	Royal Decree
ROE	Return On Equity
SCLV	Securities Clearing and Settlement Service (Servicio de Compensación y Liquidación de Valores)
SCR	Venture Capital Company (Sociedad de capital-riesgo)
SDR	Special Drawing Rights
SENAF	Electronic Trading Platform For Spanish Government Bonds (Sistema Electrónico de Negociación de Activos Financieros)
SEPBLAC	Bank of Spain Anti Money-Laundering Authority (Servicio ejecutivo de la comisión de prevención del blanqueo de capitales e infracciones monetarias)
SGC	PMC, Portfolio Management Company (Sociedad gestora de carteras)
SGIIC	Collective Investment Management Company (Sociedades gestoras de instituciones de inversión colectiva)
SIBE	The Spanish electronic market (Sistema de Interconexión Bursátil Español)
SICAV	OEIC, Open-end Investment Company (Sociedad de inversión de carácter financiero)
SII	Real Estate Investment Company (Sociedad de inversión inmobiliaria)
SIM	Securities Investment Company (Sociedad de inversión mobiliaria)
SME	Small- and Medium-sized Enterprises
SON	OTS, Organised Trading System (Sistema organizado de negociación)
SUC	Single Matching System (Sistema Unificado de Case)
SV	Broker-dealer (Sociedad de valores)
SVB	Broker-dealer and market member (Sociedad de valores y bolsa)
TER	Total Expense Ratio
UCITS	Undertakings for Collective Investments in Transferable Securities
UVM	CNMV Market Monitoring Unit (MMU) (Unidad de Vigilancia de Mercados de la CNMV)

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I Economic and financial situation

This chapter examines the key features of the economic and financial backdrop against which securities markets went about their business in 2006. It seeks not so much to provide a detailed description of the world, European or Spanish economy, but rather to serve as a reminder of those aspects the reader needs to add perspective when analysing the chapters which follow.

In 2006 there was across-the-board growth, both in the USA, which is topping out in the economic cycle, and in the euro zone and Japan, which appear to be embarking on an expansive phase. On the other hand the Spanish economy continued its show of strength, with growth up on the previous year and ahead of the euro zone average.

Energy price stabilisation provided a drop in inflation with respect to the year before, which dampened prospects of further tightening of monetary policy for 2007 following the base rate hikes over the year. Spain ended the year with inflation down on the previous year.

The favourable trend for the economy was mirrored by risk and return indicators for the financial markets. Both credit risk premiums and price volatility for the various financial assets held at low levels, underlining the presence of an essentially stable financial context.

The rise in official interest rates prompted higher yields in European and US fixed interest markets. Despite the upturn in the cost of borrowing, share prices generally also climbed in these economic areas thanks to corporate earnings growth and, in some cases, in anticipation of M&A activity. The Spanish equity market was among the most prominent in terms of earning power.

The generally benign conditions comprising the economic and financial setting in 2006 do not disguise the fact that there are certain risks which could affect financial markets in 2007.

In connection with the international economy, besides the major on-going geopolitical risks, the recession in the US real estate market should be noted, whose fall-out already started to make itself felt in the opening months of 2007, as well as the sudden heavy indebtedness of euro zone households in recent years which makes this sector particularly susceptible to fresh interest rate rises. Within the Spanish economy, in addition to the debt being accumulated by households, which is substantially more than elsewhere in Europe, it is worth pointing out the low

productivity growth and the problems with competitiveness which stand to cramp the economy's growth.

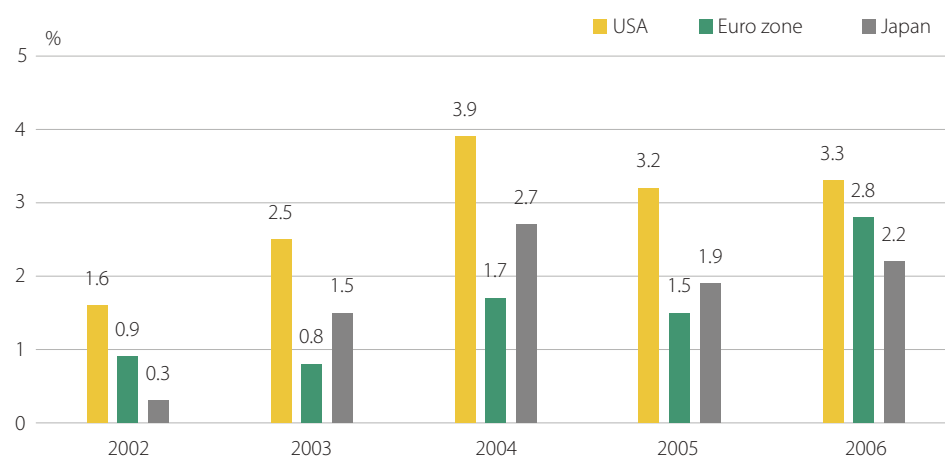
1.1. International economic and financial situation

1.1.1 Trends in the world economy

In 2006 the world economy grew 5.1% with growth being general across all the economic areas. The economies in the euro zone and Japan picked up their growth rates, while the Asian emerging nations remained buoyant and even the US economy, though revealing certain signs of a slowdown, grew slightly ahead of the previous year's level (see figure 1.1).

Annual GDP growth

FIGURE 1.1



Source: Spanish Ministry of Economy and Finance.

US GDP rose 3.3% in 2006, 0.1% more than it did in 2005, due to improvement in the export sector as domestic demand held stable. Domestic private sector demand eased on lower private consumption growth and a 4.2% reduction in housing investment. Despite the increase in public expenditure, the federal deficit narrowed with respect to nominal GDP. On the other hand, the current account deficit widened to 6.7% of GDP.

Japan consolidated its economic recovery, seeing its longest run of straight quarterly growth increases since 1997. GDP growth of 2.2% was built on investment and a 0.8% contribution from the foreign sector, and although commodity prices were up, inflation held at lows.

The developing Asian economies continued to grow apace, with Chinese GDP particularly notable, growing at over 10% again thanks to exports and investment.

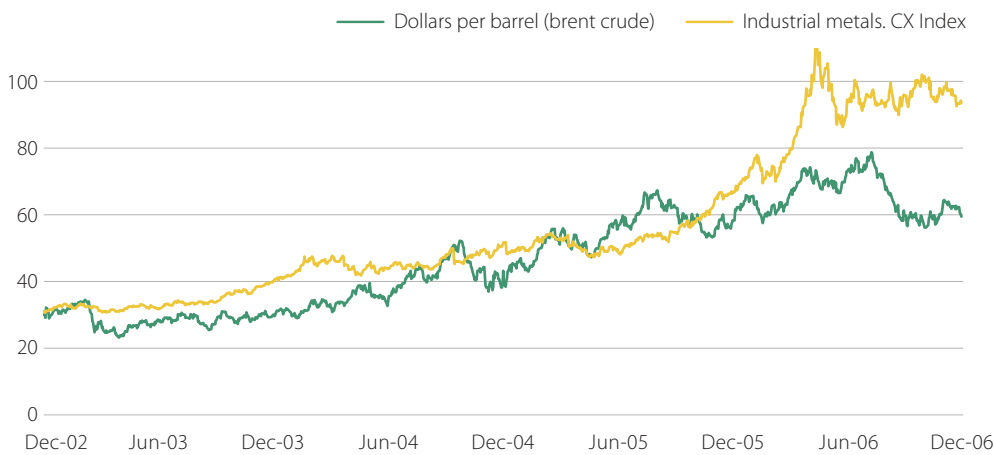
In Latin America economic recovery was bolstered by 5.3% growth in 2006. Expansion has now been kept up for three years and was driven by price rises in the commodities exported by this set of countries and investment. The trade surplus and remittances from emigrants provided a fillip for the area's financial

situation, though this could still prove sensitive to a sharp drop-off in economic activity in the USA or in Europe and harsher financial conditions worldwide.

In the euro zone economic recovery appears to be settling in. In 2006 GDP growth was 2.8% after four years of sub 2% growth. The brisker growth was spurred on by revival in Germany, France and Italy. Investment expenditure was the decisive factor in lifting domestic demand as household consumption advanced at moderate rates. The foreign sector's contribution to growth was positive but this is expected to dwindle as the US economy slows down and the dollar continues to climb.

Commodity prices

FIGURE 1.2

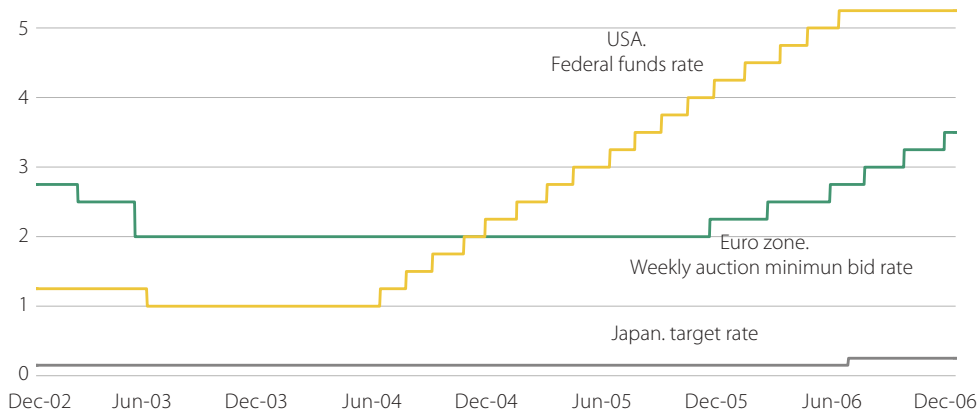


Source: Datastream. CX index compiled by Deutsche Börse.

World economic growth prompted the rise in demand for commodities, their prices climbing up to August, when oil hit 78 dollars per barrel, a historic high. Thereafter the mild winter in Europe and the USA coupled with the slight US slowdown and the increase in output by non OPEC member countries allowed crude to drift back to 59.4 dollars (see figure 1.2).

Central bank base rates

FIGURE 1.3



Source: Datastream.

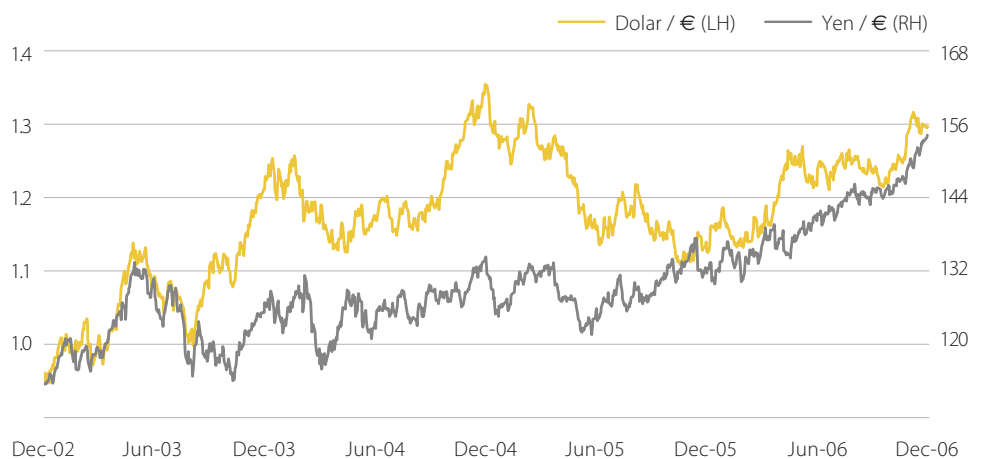
Inflation in the USA and the euro zone began 2006 at high levels due to economic activity and commodity price rises. Nonetheless, as monetary policy tightened and the oil price eased, prices started to rein themselves in. The euro zone price index thus closed 2006 with annualised growth of 1.9%, within the area considered as indicative of price stability by the European Central Bank, and in the USA at 2.6%. In Japan prices rose by only 0.3% year on year, although underlying inflation was negative.

The Federal Reserve and the European Central Bank continued the tighter monetary policy begun the previous year. Official interest rates moved up from 4.25% to 5.25% and from 2.25% to 3.50% respectively. In the USA the rise in official rates stopped when inflation began to fall back and some signs emerged of economic slowdown. The ECB's hikes were motivated by European economic recovery, private credit expansion and inflationary pressures. After five years of the most expansive monetary policy possible the Bank of Japan raised its target interest rate by 10 basis points to 0.25%.

The dollar slid 11.5% against the euro in 2006 after its 13.4% rise the previous year (see figure 1.4). The dollar's fall against the European currency can be accounted for both by the US trade deficit and the narrowing of the interest rate spread between both economies. The yen lost ground against the euro by a similar 13% as it followed the dollar. The dollar's drop against the euro also caused currencies in Latin American countries within its area of influence to follow suit.

Euro exchange rate against the US dollar and the Japanese yen

FIGURE 1.4



Source: European Central Bank.

1.1.2 Risks on the international macroeconomic scene

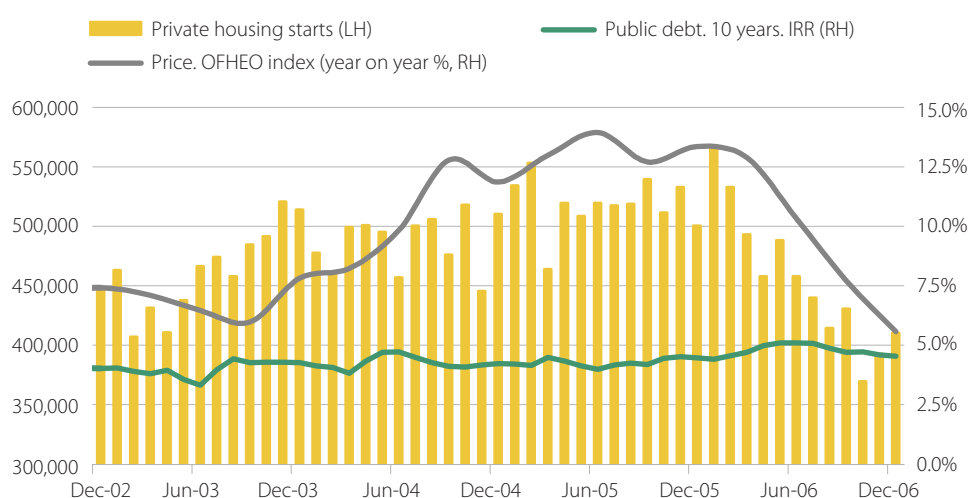
Besides the uncertainty sparked by the military and political conflicts in the Persian Gulf and the possibility of them spilling over into other countries in the zone, along with the potential impact of this on the oil price, other risks may be pointed to for

the world economy. In 2006 there was a sharp deceleration in the US real estate market which made itself apparent both in activity and price terms, and households in several European countries continued to build up debt, spurred on by rising house prices, low interest rates and credit facilities.

The real estate market had been one of the key drivers for the US economy since the bursting of the technology bubble, with output and prices surging ahead¹. This trend sustained economic activity both directly, by increasing output, and indirectly, by facilitating household consumption through the wealth effect and a rise in borrowing capacity (see figure 1.5). However, as monetary policy tightened construction activity showed visible signs of petering out in 2006 as the number of housing starts fell by 12.3% and prices slowed down sharply. Although interest rates had stabilised by mid 2006, the effects of the fall in activity and prices continued to bite and the ultimate repercussions of such a wane on US economic activity are still unknown, as is whether this situation will spread to other countries.

The housing market in the USA

FIGURE 1.5



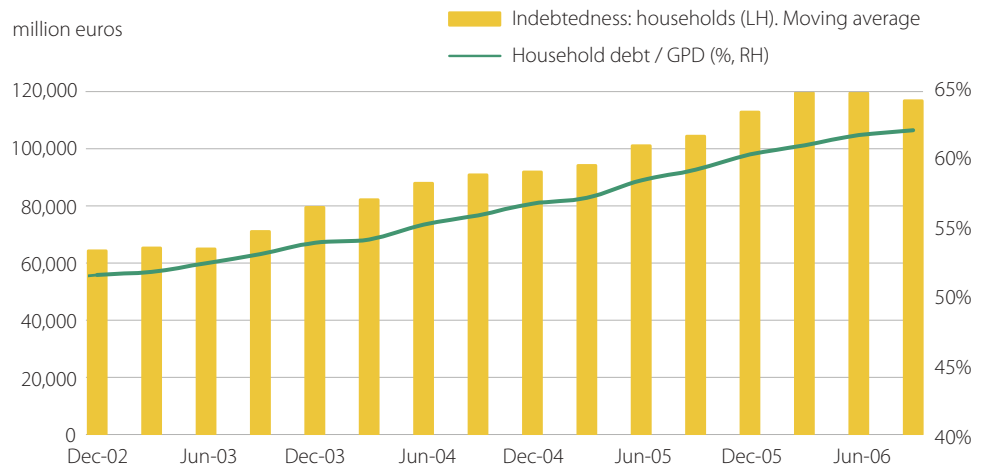
Source: Datastream.

The European Central Bank's monetary policy also provided households with an incentive to accumulate debt (see figure 1.6). Loans to euro zone households reached a value of 4.9 billion in September 2006, some 43.4% more than in 2001, representing 59.4% of GDP. Such growth was not uniform across all countries, instead focusing on those where prices in the real estate market rose and allowed the mortgage debt burden to rise. A portion of such loan activity was arranged at variable interest rates, meaning that the current tightening of monetary policy could affect household consumption capacity in these countries.

1. In 2005 some 2 million homes were built, 31.8% more than in 2002. The price index published by Office of Federal Housing Enterprise Oversight rose up by 58% during the same period.

Euro zone household debt

FIGURE 1.6



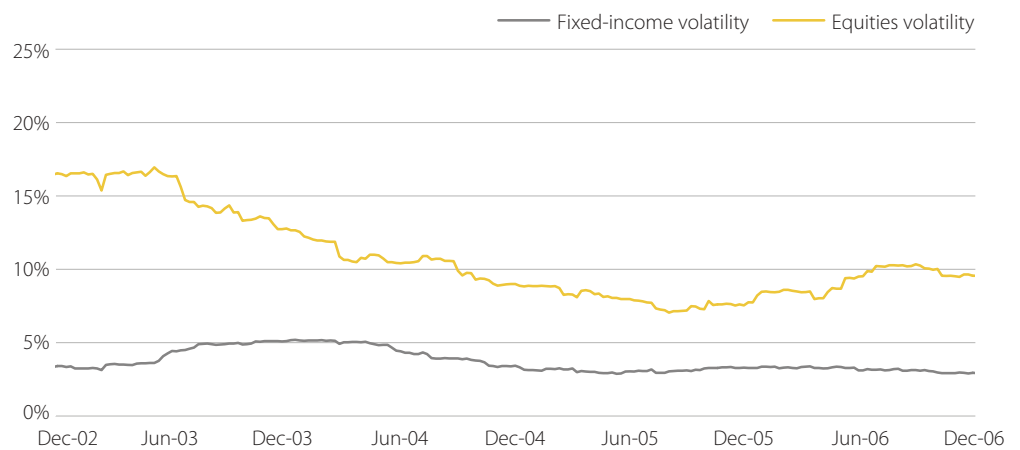
Source: European Central Bank and Datastream.

1.1.3 Performance of world financial markets

Economic growth and moves by the central banks led to rises in interest rates for public and private debt and a flattening of the yield curve. Despite this, market liquidity and good corporate results brought about rises on the major stock markets allowing credit risk premiums to hold at relatively low levels. Volatility on financial markets remained low in historic terms, as can be seen in figure 1.7 and is outlined in the box which follows.

Volatility on financial markets¹

FIGURE 1.7



Source: Datastream and CNMV.

1. Volatility for an equally weighted fixed income or equity portfolio on the markets in the USA, Japan and the euro zone.

The interest rate on one-year dollar-denominated deposits reached 5.33%, 49 bps more than at the close of 2005, due to a tightening of monetary policy by the Federal Reserve. Public debt yields also rose, with those for 10-year stock reaching 4.70%,

30 basis points up on the previous year (see figure 1.8). As monetary policy stabilised, however, the yield curve slope started to invert (see figure 1.9).

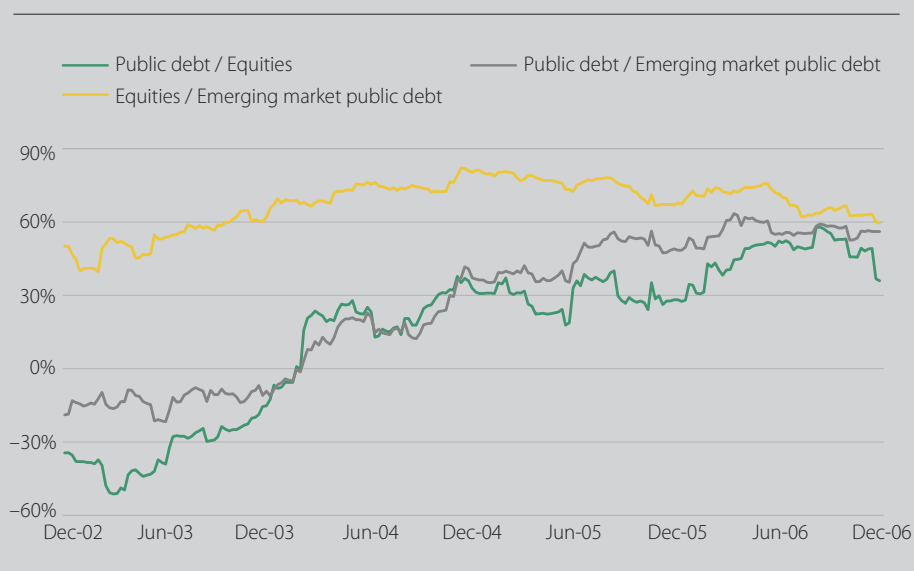
The reduction in volatility on financial markets

The low level of volatility on financial markets in recent years has been a positive factor as it has brought enhanced stability and robustness and lowered risk premiums for investors. Such decreases in market risk are even more significant when one considers that they have occurred over a period during which particularly adverse events have taken place in the economic and geo-political arena¹. Notable among the possible causes for such low volatility are: (i) changes in official interest rates becoming more and more gradual and predictable, (ii) the increased liquidity in the financial system, (iii) growth in corporate profits and a reduction in gearing ratios in the USA and Japan. Also influential in subduing volatility could have been the fact that markets are becoming increasingly sophisticated in passing on different types of risk.

The lower level of market risk has in turn had a limiting effect on the opportunities for doing business using certain volatility-based financial strategies though it has opened up others. One example of these is the so-called *carry trade* involving the Japanese yen whereby investors borrow in this currency to invest in assets denominated in higher yield Western currencies. This kind of trading has been favoured by an increase in the risk-reward ratio from a reduction in volatility in the yen exchange rate against the US dollar and the euro.

The general reduction in volatility has been accompanied by a strengthening of the correlation between various assets and between the different economic regions (see chart below). The more tightly-knit correlation between different assets is an effect of greater integration of financial markets, as it shows that investors tend to take advantage of chances to cut down on portfolio risk by diversifying it without discriminating between markets and product types.

Correlations between different financial assets¹



Source: Datastream and the CNMV.

1. Correlation of weekly yields over a year for each pair of asset types.

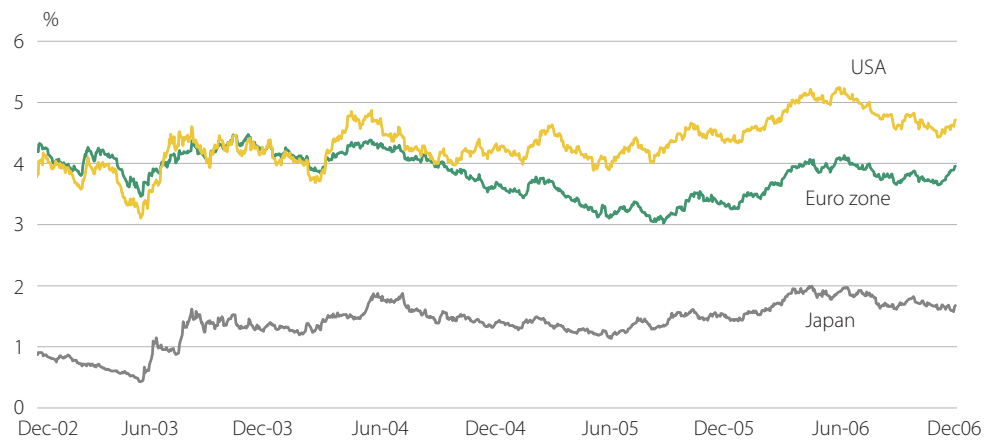
Some supervisory bodies however warn that the reduction in volatility levels is not necessarily here to stay and that an unforeseen resurgence in market risk could bring problems for those financial institutions which employ strategies that implicitly assume a low level of volatility. Moreover, the closer correlation between different financial assets also implies greater difficulty in offsetting risk for a financial portfolio through diversification which is why these bodies warn of the need to bear this new scenario in mind when designing investment strategies.

1. During the last few years the oil price has climbed steadily and events have included the credit crisis among auto companies in the USA, terrorist attacks, natural disasters and a persistently worsening situation in the Persian Gulf.

The one-year Euribor index closed 2006 at 4.03%, 118 basis points above the 2005 level, due to the hikes in official interest rates. At the end of 2006 the market was expecting further rises from the ECB, albeit by small amounts. 10-year public debt thus saw out the year yielding 3.96%, which was 66 basis points up on the previous year, though similar to debt yields at the short end (see figure 1.9).

Long term debt yields¹

FIGURE 1.8

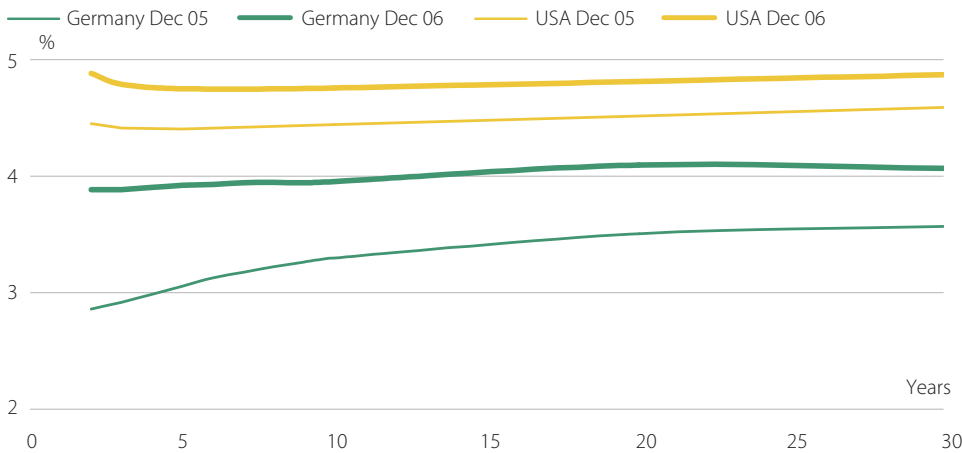


Source: Datastream.

1. 10-year public debt issued by central government in the USA and Japan. For the euro zone Germany is used as the benchmark.

Yield curve. German debt

FIGURE 1.9

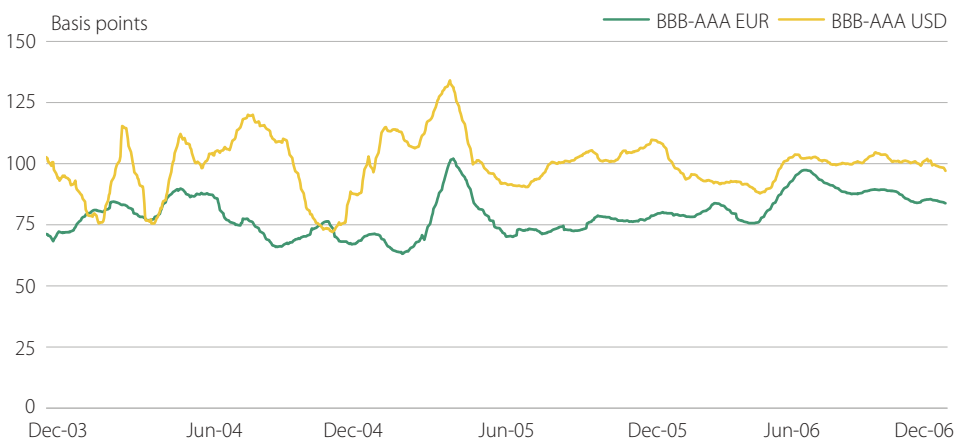


Source: Reuters.

Raising money through private debt became dearer due to the rise in interest rates in the USA and in the euro area. The credit risk premium nonetheless remained virtually unchanged throughout 2006 for euro- or dollar-denominated debt and so both types are holding at previous lows (see Figure 1.10). The low cost of borrowing has proved beneficial to both private issuers from developed countries and government issuing public debt in developing countries.

Private debt credit risk premium (BBB-AAA)¹

FIGURE 1.10



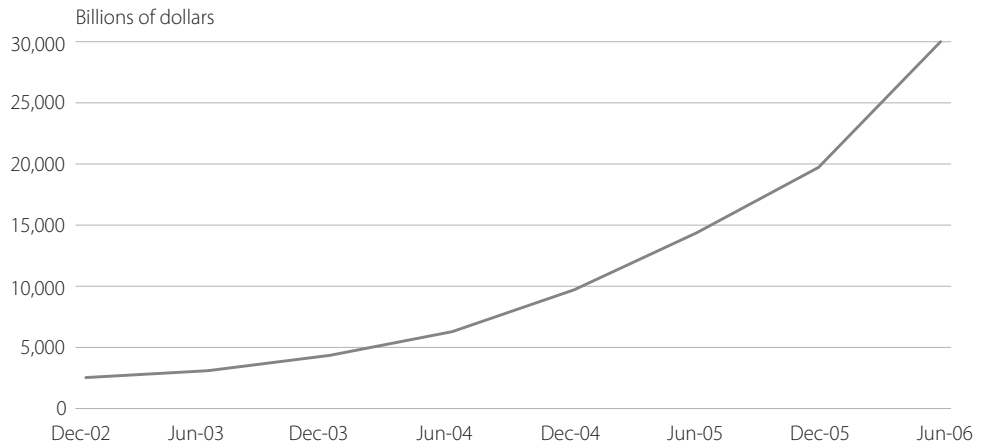
Source: Reuters.

1. 20 session moving average for the yield spread between 10-year issues with the lowest rating (BBB) within the so-called investment grade category and those with the highest rating (AAA), which are generally sovereign debt.

The reduction in risk premiums is based on immediate factors such as relatively low public debt yields in the developed countries, growth in corporate profits, the favourable situation for developing economies and the low default rate. Cheaper debt finance could also be linked to the development of the credit derivatives market, which smoothes the passing on and spreading of risks of this nature. As can be seen in Figure 1.11, this market has seen exponential growth in recent years.

Notional outstanding balance for credit default swaps

FIGURE 1.11

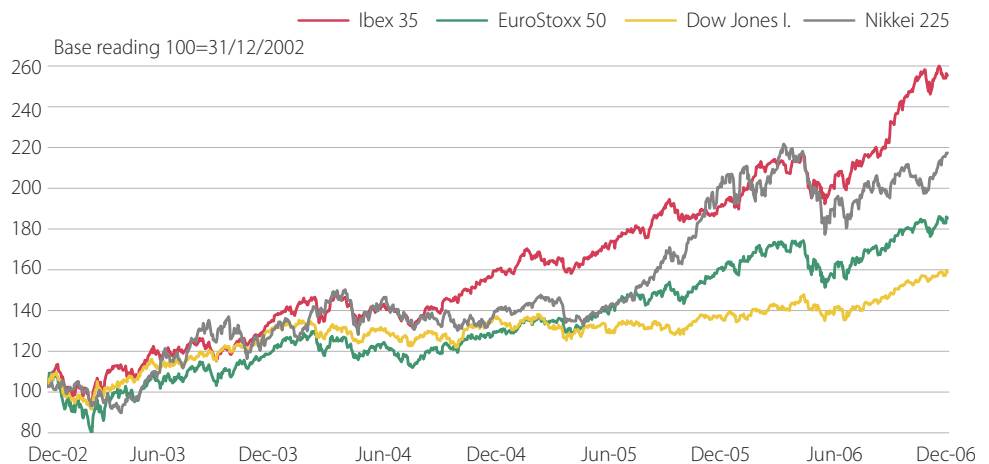


Source: International Swaps and Derivatives Association (ISDA).

In principle the presence of a developed credit derivatives market should have a positive effect if there is a credit crisis as financial institutions will have been able to offload and/or spread part of their credit risk. The ECB nonetheless warns that the currently auspicious situation should not disguise the possibility of less favourable ones giving rise to herd behaviour within such markets which would spark a sharp fall-off in counterparties. The ECB further points out that this type of contract could also exacerbate market volatility in certain adverse situations.

Performance of the major world stock market indexes

FIGURE 1.12



Source: Datastream.

The performances of European and US stock markets were similar, with the Dow Jones Ind. Av. rising by 16.3% and the EuroStoxx 50 up 15.1%. The return on the Nikkei 225 index was 6.9%, which was modest after it had grown by 40.2% in 2005 (see Figure 1.12). Both in the USA and in the euro area share price advances were underpinned by corporate results, whose positive impact outweighed the negative effect of the rise in interest rates. The price to expected earnings ratio as calculated by IBES-Datastream shows that price advances hinged on greater anticipated profits. This ratio for the Standard & Poor's 500 and the EuroStoxx 50 ended the year at the same levels as in 2005. In all markets the increasing flurry of merger and acquisition activity among listed companies was a major factor in explaining why a raft of shares moved upwards.

Trading volume on markets again increased in 2006. This owed itself to the higher prices for shares changing hands and also to a higher number of trades² (see Table 1.1).

In the euro area stock market activity was boosted by issues and admissions to trading, both through public offerings and capital increases by companies already

Equity markets: performance and trading

TABLE 1.1

Stock exchange		Indices		Trading	
	Name	% change		Billion euros	% change ¹
		2005	2006		
Developed countries					
USA	Dow Jones Ind. A.	-0.6	16.3	17,222.2	54.3
USA	Nasdaq Composite	1.4	9.5	9,345.3	17.1
Japan	Nikkei	40.2	6.9	4,617.5	36.4
United Kingdom	FTSE 100	16.7	10.7	5,990.8	30.5
Euro area ²	Euro Stoxx 50	21.3	15.1	8,849.5	31.9
Euronext	Euronext 100	23.2	18.8	3,005.7	28.2
Germany	Dax 30	27.1	22.0	2,164.8	40.0
Italy	Mib 30	13.3	17.5	1,258.5	19.8
Spain ³	Ibex 35	18.2	31.8	1,149.9	34.7
Latin America and Asia					
Argentina	Merval	12.2	35.5	4.2	-19.2
Brazil	Bovespa	27.7	32.9	217.9	49.6
Chile	IGPA	2.7	34.4	23.3	48.9
Mexico	IPC	37.8	48.6	76.0	71.2
Peru	IGBL	29.4	168.3	4.3	104.7
South Korea	Korea Cmp Ex	54.0	4.0	1,065.2	3.5
Hong Kong	Hang Seng	4.5	34.2	656.0	79.1
China	Shanghai Composite	-8.3	130.4	576.7	200.2

Source: World Federation of Exchanges, Reuters and CNMV.

1. In local currency.

2. Volume traded on euro area stock exchanges. Includes all OMX, although some markets do not trade in the euro.

3. Does not include Latibex, MAB or ETF.

2. According to figures from the World Federation of Exchanges, in all the markets in Western Europe except in Vienna the number of trades increased with respect to 2005.

listed. According to the World Federation of Exchanges admissions to trading on euro area stock markets came to a value of 112,531 million euros, or 1.6% of the whole capitalisation at year-end.

1.1.4 Trends and strategic moves within market infrastructures

2006 saw substantial corporate moves within the sphere of market infrastructures. The most significant was without doubt the agreement between Euronext and the NYSE on the latter acquiring the former, which happened in March 2007. Euronext had previously turned down an alternative offer from Deutsche Börse. It is worth remembering that in its day Euronext meant the merger of the spot and derivatives markets in France, Holland, Belgium and Portugal plus a major financial derivatives product market based in London (Liffe).

On the other hand Nasdaq, the other major US equity market, also tried to acquire the London Stock Exchange, Europe's leading stock market by trading volume and capitalisation. Although this fell through, Nasdaq still holds a significant stake in that market of approaching 30%, which suggests there may be further attempts to acquire it in the future.

The entry of the two great US markets into the fray to gain control of the major European infrastructures represents a substantial change in the consolidation process hitherto in progress. The two corporate moves mentioned hint at a clearly global dimension in the competition among the larger providers of trading services which is sure to continue with moves in Europe itself and other continents, especially Asia.

Last year some activity along these lines already took place, such as the acquisition of stakes by the NYSE and Deutsche Börse in the main Indian markets (National Stock Exchange and the Bombay Stock Exchange respectively) or the signing of significant partnership agreements, notable among which are, on the one hand, those entered into by Nasdaq with the stock exchanges in Korea and Shanghai and Japanese market Jasdaq, which specialises in Initial Public Offerings, and on the other hand the one reached between the NYSE and the Tokyo Stock Exchange.

The global dimension of strategic moves by the major markets comes as a response to the increasing significance of global strategies by the larger investors and the opportunity for smaller investors to become involved in these too thanks to technological progress. The NYSE and Nasdaq have taken the initiative, being stimulated by the weight and global reach of US investment and shielded by their own financial muscle.

In Europe the acquisition of Euronext and the interest displayed by Nasdaq in the London Stock Exchange increase the likelihood of new takeover bids or mergers principally aimed at the most important European markets with a regional or purely national area of influence, which include Scandinavian group OMX, Borsa Italia and BME. Deutsche Börse, which has tried over recent years to acquire other markets, among these the London Stock Exchange, emerges as a potential front-runner for future overtures in this respect, although other protagonists cannot be ruled out.

It should likewise be taken into account that the coming into effect of the Markets in Financial Instruments Directive planned for November 2007 could pave the way for the appearance of trading infrastructures to compete with traditional markets. A group of seven sizeable banks³ actually last year announced the creation in 2007 of a multilateral trading facility.

Post-trading activities: EU trends

The processes of consolidation among European Union securities markets has thusfar been limited and have basically affected trading infrastructures. Within the sphere of post-trading activities the current situation is still marked by a high level of fragmentation with over twenty infrastructures, mostly of an essentially domestic hue.

The European authorities have championed three initiatives aimed at fomenting a greater degree of integration for post-trading activities on a pan-European scale. In particular it is intended that costs should be reduced for users, especially as regards settlement for cross-border trading, whose currently high cost impedes greater integration among markets. The initiatives are, in chronological order, as follows:

- The first is contained in the Markets in Financial Instruments Directive (MiFID), which is to come into effect in November 2007. The body of this enshrines the possibility of members or participants of a regulated market being free to designate the clearing and settlement system for their trading in it.
- The second is the voluntary Code of Conduct backed by Commissioner McCreevy and already subscribed to by most European trading and post-trading infrastructure operators. Among other objectives the code aims for all infrastructures to be able to operate along with each other, particularly those which offer clearing and settlement services. It also seeks for services and rates of the various clearing and settlement systems to be announced transparently and to be comparable with each other (see box in chapter 4).
- The last of the initiatives, which is from the Eurosystem, is the TARGET2-Securities (T2-S) project. It proposes setting up a single settlement platform for all types of securities to be operated by the Eurosystem. In principle the platform would work in euros, although other currencies could be added. A timeframe of five or six years is envisaged for developing the project and bringing it into service (see box in chapter 4).

Be they considered individually or in combination, the first two initiatives mean altering the currently exclusive environment in which national central securities depositories (CSDs) operate as regards transactions carried out within their territorial jurisdiction or on certain markets. This thus opens up

3. Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, Merrill Lynch, Morgan Stanley and UBS.

the possibility of CSDs competing with each other to win post-trading business. Such competition could be especially fierce in the area of settlement, which is at present the main source of income for most of these institutions.

The European Central Bank's initiative goes even further as it entails the participating central depositories relinquishing the settlement for all types of securities, whether these be fixed interest or equities, in favour of the platform set up under the T2-S project and discontinuing this activity domestically.

1.1.5 Other notable aspects of the development of the financial system

In recent years the rise in liquidity and a greater willingness to take on risk have favoured the development of new ways to invest, in the main targeting institutional investors or high net worth individuals with the mission of exploiting potentially high risk and reward opportunities. Two prime examples of this phenomenon are the activities of private equity and hedge funds. In 2006 both activities again experienced conspicuous growth worldwide, consolidating themselves as significant sectors within the financial industry.

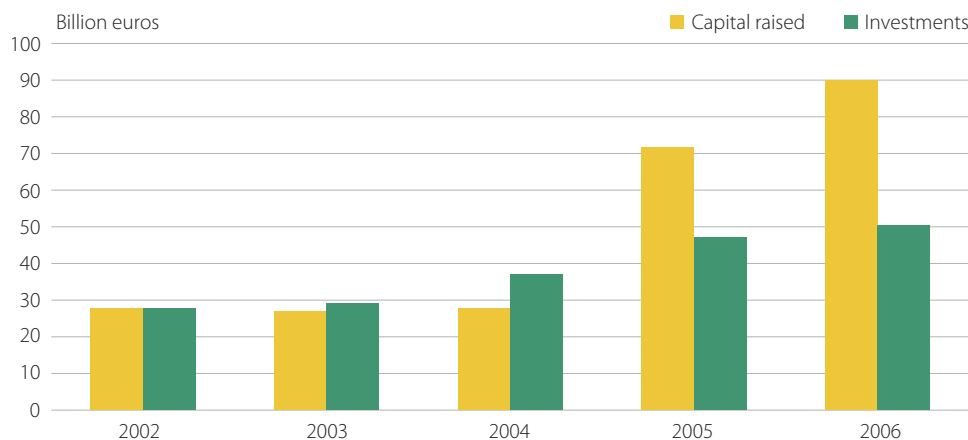
Private equity activities encompass a wide range of investments, from pure venture capital (setting up new companies or developing these at their fledgling phase) to buyouts, i.e. acquiring mature companies, often with a high degree of leveraging. As is also the case with hedge funds, investments are channelled through purpose-designed vehicles operating as mere equity funds or firms with shares whose holders are generally restricted to just a few investors. Only certain countries, Spain included, have laid down any kind of regulatory framework for such activities⁴.

The rise in private equity activity has been especially marked in Europe, where funds raised by firms in the sector grew by some 25% in 2006, outstripping the sum raised over the 2002-2004 three-year period (see Figure 1.13). As happened in 2005, the bulk of funds raised, at around 79% of the total, was invested in buyouts⁵. The low cost of borrowing and the surge in M&A activity over the last two years have provided private equity investors with substantial inducement to take a stake in such transactions.

Private equity activity contributes to the growth of the economy and financial markets by helping new companies to emerge and making efficient changes to the management and structure of mature ones. Nevertheless, their swelling gearing levels and the noticeable presence among their investors of highly important institutions within the financial system (mainly pension funds and credit entities) raise the question of whether it is appropriate or not to put in place some sort of

4. In the case of Spain adherence to the regulatory framework is voluntary and entails the recognition of certain tax benefits (see Chapter 7).

5. The leaning of private equity investments in Europe contrasts sharply with what happens in the United States, where pure venture capital predominates with a significant impact on the stock market through IPOs.



Source: EVCA/Thomson Financial/PricewaterhouseCoopers

regulation for this activity, particularly as regards the issue of transparency, so as to head off systematic risk.

In relation to the hedge fund industry, the assets it manages grew by around 21% between September 2005 and September 2006, even though overall returns for the sector failed to eclipse those gained by the major stock market indexes⁶. It should be borne in mind that this industry offers an extremely varied assortment of investment strategies, some of which move against each other, for which reason very mixed results may be expected in terms of returns.

US managers still handle the largest slice of assets in the sector at around 62%, but the European industry is fast expanding and now accounts for 26% of overall assets. It is reckoned that 80% of European assets are managed by London-based companies.

Institutional investors are increasingly embracing this kind of investment within their diversification strategies. It is thought that 13% of European pension funds invested in hedge funds in 2006⁷. It should also be noted that the industry is developing methods to bring in private investors in the retail sector. One particularly noticeable aspect here is the strong growth in funds of hedge funds, where capital under management had expanded 26% by September 2006 over the same month the year before.

The preference for risk of these institutions is clear given their presence in some of the highest risk financial markets. For example a study published in September 2006⁸ estimated that the share of daily trading accounted for by hedge funds came

6. The CSFB Tremont index, one of the most widely used sector benchmarks, rose 14% in 2006, whereas stock market indexes such as the Dow Jones and the Euro Stoxx 50 were up 16.3% and 15.1%, respectively.

7. "European Asset Allocation Report 2006", Mercer Investment Consulting, September 2006.

8. "For hedge funds, fixed-income trading volumes soar, while costs take on new importance", Greenwich Associates, September 2006.

to 58% in the credit derivatives market, 47% in the credit default market and 25% in the junk bond market.

Following the failure of Long Term Capital Management in 1998 no further negative events on such a large scale have transpired among hedge funds. Losses are however commonplace. In 2006 a total of 83 US hedge funds ceased operations which had at their height attained combined assets of 35 billion dollars. The largest one was a fund managed by Amaranth Advisors LLC, whose assets had topped 9 billion dollars. With extremely high leveraging the fund traded in natural gas derivatives and lost 6 billion dollars.

Regulators have on several occasions shown some concern over the consequences of hedge fund activity for the stability of the financial system, as well as in other areas of prudential supervision and investor protection (see box in Chapter 6 for further details). As a result of this there is a growing trend towards setting out a certain degree of regulation. In Spain the new IIC Law passed in 2005, together with the regulations to implement it passed in March 2007, regulates such activity under the legislation governing collective investment (see Chapters 6 and 11, as well as the Legislative Annex).

1.2. Spanish economic and financial situation

1.2.1 Developments in the Spanish economy

The Spanish economy grew by 3.9% in 2006, thus advancing 0.4 points over the 2005 level. Domestic demand remained the chief growth factor with a 4.9 percentage point contribution, although its relative weight shrank slightly due to less vigorous household and general government consumption. The pick-up in exports managed to soften the negative foreign sector effect by making up for the drop in domestic demand growth. The bright economic situation prompted employment to grow to 20 million people, 3.6% up on the last quarter of 2005.

As happened in 2005, growth was largely led by construction and market services. A positive factor though was the greater sector diversification in growth, as industry contributed after several years of rates below those of the rest of the economy.

Spain's inflation differential with respect to the euro area has been a persistent problem for the Spanish economy for several years. In 2006 this was narrowed thanks to the 1 percentage point shift in Spanish inflation to 2.7%, whereupon the gap shrank to 0.8%. This paring of price growth may go some way towards reducing the imbalance on current account by boosting the competitiveness of export companies and cutting back the pace of consumption and investment growth as the real interest rate rises.

Employment growth allowed gross disposable household income to rise but owing to the greater increase in spending the savings rate fell back⁹. Spanish families

9. Taking into account the first three quarters of 2006 and the final one in 2005. The gross saving to gross disposable income ratio was 9.3%. In 2004 and 2005 the equivalents were 11.4% and 10.6% respectively.

Rate of change, unless indicated otherwise

	2002	2003	2004	2005	2006
GDP (at constant prices) ¹					
GDP	2.7	3.0	3.2	3.5	3.9
Domestic demand ²					
Household spending	2.8	2.8	4.2	4.2	3.7
Government spending	4.5	4.8	6.3	4.8	4.4
Gross fixed capital formation	3.4	5.3	5.1	6.9	6.3
Net external demand ²					
Exports	2.0	3.7	4.1	1.5	6.2
Imports	3.7	6.2	9.6	7.0	8.4
Other indicators					
CPI. Annualised to December	4.0	2.6	3.2	3.7	2.7
Employment growth ³	2.9	4.4	4.1	5.6	3.6
Unemployment rate ³	11.6	11.4	10.6	8.7	8.3
Balance of payments on current and capital account					
(% of GDP)	-2.2	-2.5	-4.3	-6.5	-8.2
Government lending or borrowing (% of GDP)	-0.3	0.0	-0.2	1.1	1.8

Sources: INE, Bank of Spain, and Ministry of Economy and Finance.

1. INE. National Accounts, base year 2000.

2. Contribution to GDP.

3. LFS. Q4

continued to need to borrow to forge ahead with their heavy investment in housing. Companies also needed to external funding to finance their investment plans in spite of improved profits.

1.2.2 Risks facing the domestic economic scene

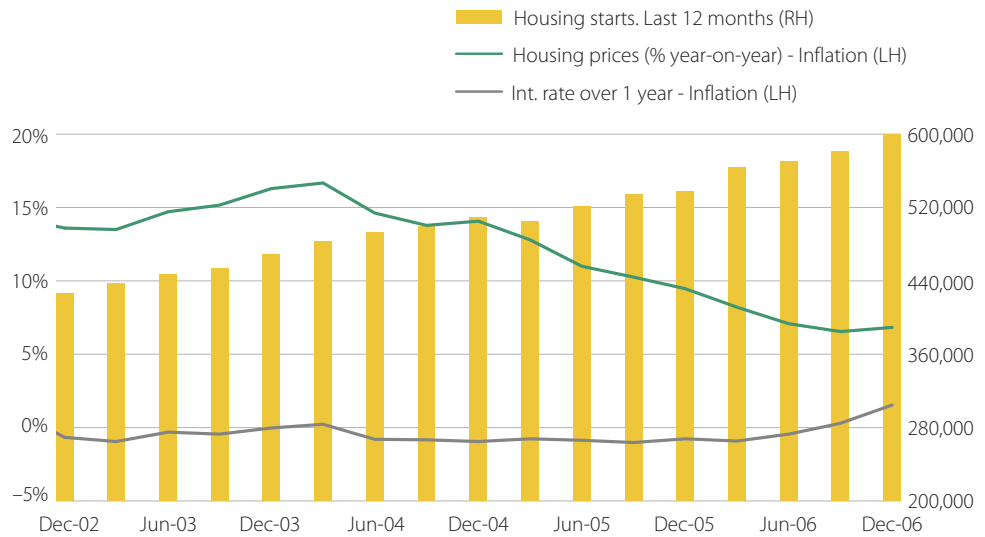
The increase in residential investment demand has been one of the main drivers for both the Spanish economy and house prices over recent years (see Figure 1.14). This situation has been felt since 1999 and among the reasons for it have been the entry onto the labour market of a sizeable number of people and a cheapening of financial costs, yet although this shows the vigour of the Spanish economy, it also represents one of the prime sources of risk at the moment.

In 2006 the tightening of monetary policy and lower inflation in Spain caused real short-term interest rates to turn positive again. This rise in the cost of borrowing reined in demand growth, thereby slowing down house price rises, which grew at a year-on-year 9.1%, far below the average for the previous four years. In spite of this output remained at highs¹⁰.

10. Between January and November 2006 539,892 homes had been built, 11.4% more than in the same period in 2005.

Spanish housing market. Output and prices

FIGURE 1.14

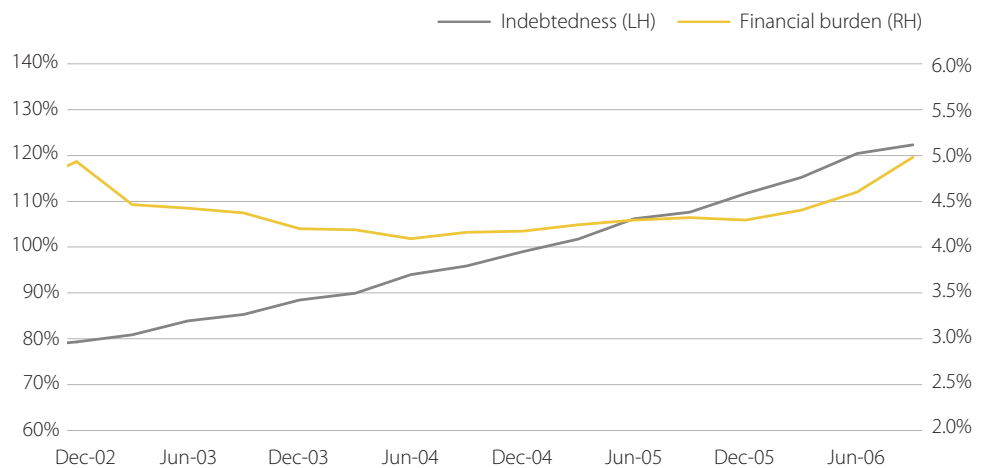


Sources: INE and Datastream.

Borrowing by households to invest in homes has caused debt to balloon in recent years. In 2006 the ratio of loans to households and their gross disposable income continued its upward climb. 70% of household indebtedness is housing-related and this is mostly linked to a variable benchmark interest rate. The combination of greater indebtedness and higher interest rates has meant that a higher percentage of income has had to be earmarked for paying off the financing burden. As the cost of borrowing escalates Spanish households could find their spending capacity curtailed (see Figure 1.15).

Household indebtedness¹ and financial burden²

FIGURE 1.15



Sources: Bank of Spain, INE and CNMV.

1. Indebtedness calculated as the ratio between family borrowing and gross disposable income.
2. Financial interest burden calculated as the ratio between household interest payments and their gross disposable income. Interest paid estimated on the basis of the average rate applied by credit entities.

The trade deficit and meagre productivity growth also pose risks to the Spanish economy's medium term growth. Consumption expenditure and investment growth ahead of disposable income was made possible thanks to a current account deficit which reached 8.8% of nominal GDP. Although Spain's membership of the euro area makes financing this deficit somewhat easier, the future flow of payments to its backers will have to be effected by lifting exports if it does not wish to bring a wholesale sell-off of national assets upon itself in the future.

To balance up the Spanish economy's trade accounts competitiveness must be increased in the coming years, and to achieve this without trimming national disposable income, productivity has to be stepped up. In the last decade productivity underperformed against European average growth, both in terms of average productivity per employee and total factor productivity. The basic reason behind the lower productivity growth is the relatively rapid influx of a large number of people onto the labour market in low productivity sectors, such as construction or services with low qualification levels, while weakness in total factor productivity includes technological and formative failings as well as growth reliant on medium technology activities.

To raise the Spanish economy's productivity and competitiveness public plans have been established such as the National Reform Plan, which seek to boost public infrastructure, research, human capital, watch over competition in markets and encourage business activity. Furthermore, the capital stock per employee will have to move into line with the rest of the euro area in the future and raise productivity per worker, as although this has increased in the last few years, the gap is still substantial¹¹. Funding the necessary investment will require new inflows of capital from the rest of the world.

1.2.3 Financial decisions by economic agents

The behaviour of economic agents in the financial sphere broadly speaking followed the previous year's pattern. In terms of business finance there was notably little market impact in fund raising activity for non-financial companies, which contrasted with the significant role played by them for the financial sector, while in the area of financial investment there was again a notably high volume of net acquisitions of domestic financial assets by non-residents, which was concentrated on fixed-income securities. The most meaningful variations were those witnessed in the behaviour of households, which was affected by the changes in the tax treatment of returns on financial assets under the new income tax law¹², even though this came into effect in 2007.

11. According to the European Commission's *Annual Macroeconomic Database*, capital stock per employee in 2006 was 128,000 euros, while the euro area average was 182,000. Since 1999 this figure rose by 9.4% in Spain and 9.0% in the euro area.

12. Law 35/2006 of 28 November on personal income tax and partially modifying the legislation on corporation tax, non-resident income tax and wealth tax.

Net acquisition of financial liabilities by non-financial companies

TABLE 1.3

Million euros						
	2002	2003	2004	2005	2006 ¹	% chg. 06/05 ²
Securities other than shares	-2,340	-1,271	-154	-242	694	388.3
Short-term securities	-1,263	-799	418	-422	894	-
Long-term securities	-1,077	-473	-572	180	-200	-
Loans	60,788	70,348	77,227	139,770	162,556	72.7
Short-term loans	5,517	3,185	21,120	41,558	27,297	-9.5
Long-term loans	55,272	67,163	56,107	98,213	135,259	111.5
Shares and other equity	43,164	40,199	38,710	29,091	19,165	12.9
Listed shares	1,134	1,220	934	2,252	4,005	124.7
Unlisted shares	27,586	24,318	15,732	14,351	5,426	0.6
Other equity (excluding funds)	14,444	14,662	22,044	12,487	9,734	-0.8
Insurance underwriting reserves	-1,606	-228	-449	-293	-100	-61.9
Other accounts receivable	36,967	47,395	54,761	65,100	45,083	-9.3
Total	136,974	156,443	170,094	233,427	227,399	41.5

Source: Bank of Spain, "Financial Accounts of the Spanish economy".

1. Figures for 9M06.

2. Percentage change in 9M06 on the same period the year before.

During the first nine months of 2006 non-financial companies generated a volume of funds available for financing internally (gross savings plus net capital transfers) that was similar to that produced in the previous year, though they substantially increased their investments both in capital goods and financial assets, especially as regards acquiring stakes in other companies. Between January and September 2006 the sector's gross capital formation grew 9.7% with respect to the like period the previous year, while net investment in financial assets did so by 39.6%. Over two thirds of the increase was in shares or in other holdings. As a result of this there was a strong rise in external fund raising to the extent that the volume of this during the period mentioned approached that for the whole of 2005 (see Table 1.3)

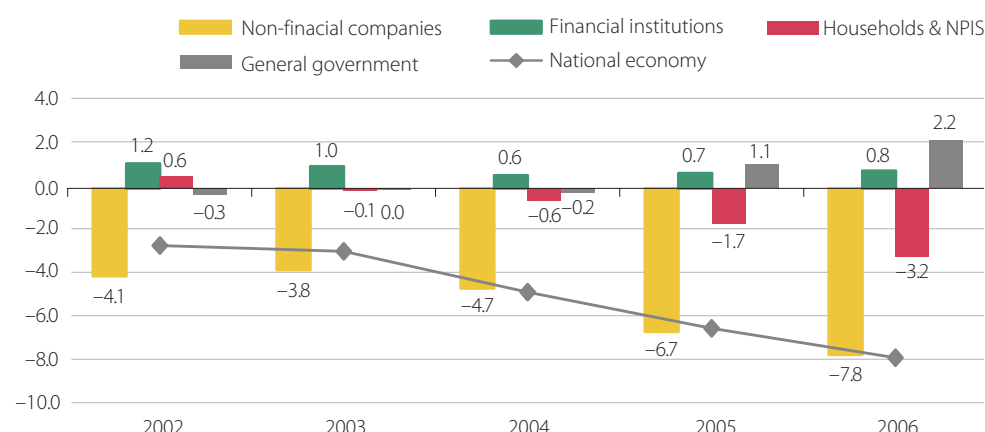
As has been mentioned, securities markets played a very small part in financing for non-financial companies. Continuing low interest rates coupled with the helpful effect of profits on the debt ratio and on company solvency encouraged them to resort to borrowing, which was basically channelled through bank loans. Fixed interest security issues scarcely accounted for 0.3% of the total. As for raising money by issuing shares and other forms of capital holdings, non-financial companies used this method to obtain 8.4% of their new funds from outside. Listed shares brought in slightly over one fifth of financing within this category and 1.8% of the total.

Looking at financial institutions as a whole, the data available for the first nine months suggests more moderate growth in new financing oriented towards this sector yet at the same time there was a notable rise in raising funds by issuing securities. In particular, financing through fixed-income issues represented almost half of the total over the period reviewed, compared to 39.9% for the same

period in 2005. As has been the case over recent years, mortgage market financing was the main driving force in issuing activity among the financial institutions, with securitisation funds especially prominent in this regard (see chapter 3 for further details).

Spanish economy: lending (+)/borrowing (-) (% of GDP)

FIGURE 1.16



Source: Bank of Spain, "Financial Accounts of the Spanish Economy".

1. The figures for 2006 are calculated as the sum of the first three quarters of that year and the last quarter of 2005.

Non-residents have played a key role in financing the Spanish economy owing to the imbalance between resident sector savings and investments (see Figure 1.16). Last year was no exception, even though net acquisitions of domestic financial assets by this sector were up less sharply than in 2005, as can be seen from Table 1.4.

Net acquisition of financial assets by non-residents

TABLE 1.4

Millions euros

	2002	2003	2004	2005	2006 ²	% chg 06/05 ³
Cash and deposits ¹	28,941	54,135	14,140	51,282	-7,901	-
Securities other than shares	31,150	41,383	104,055	141,700	158,925	65.9
Loans	21,806	21,743	10,559	18,365	26,288	108.9
Shares and other equity	29,282	8,613	22,866	7,418	-765	-
Listed shares	-707	-7,220	6,110	-5,191	-8,054	-
Unlisted shares	20,299	8,325	9,473	10,543	3,192	-4.4
Other equity (excluding funds)	6,054	7,013	6,672	5,551	3,555	-14.6
Mutual fund units	3,637	495	612	-3,485	542	-
Other accounts receivable	1,753	2,661	4,158	5,042	4,074	6.0
Total	112,931	128,536	155,779	223,807	180,621	17.0

Sources: Bank of Spain, «Financial Accounts of the Spanish Economy».

1. Includes monetary gold and SDRs.

2. Figures for 9M06.

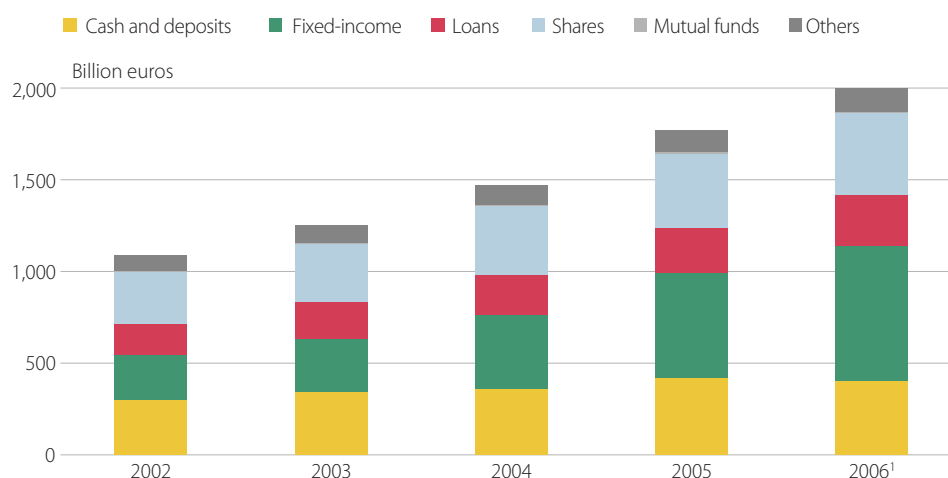
3. Percentage change in 9M06 on 9M05.

As had occurred in 2004 and 2005, new financial investments by non-residents were concentrated on fixed-income securities, which represented about 88% of the total invested over the first nine months of the year. Non-residents also continued to play a hugely significant role in securities market activity (see Figure 1.17 and Annex I.3). Worth noting too was their continued prominence in secondary market business¹³.

With respect to financial decisions made by households, the figures for the January–September period point to slower growth in net acquisitions of financial assets compared to previous years (see Table 1.5). It should be mentioned that there was still a high rate of investment in real estate assets in the sector despite the slowdown and for the second year running saving was down on the previous year¹⁴. These two circumstances, together with surging sector borrowing in the last few years and the recently mounting financial burden, seem to have given rise to greater moderation in investing in financial assets.

Breakdown of non-residents' Spanish assets

FIGURE 1.17



Source: Bank of Spain, "Financial Accounts of the Spanish Economy".

1. 2006, third quarter balances.

As has been mentioned, financial decisions made by households were affected by the new tax framework planned from 2007. In particular the announced increase in the tax rate for capital gains on shares and mutual funds worked in favour of early selling and limited new investments in such instruments. The figures for the January–September period thus reveal a net selling position for listed shares and a substantial drop in net buying into mutual funds (see Table 1.5). On the other hand a major rise in deposits and fixed income securities is noticeable, these being instruments which stood at a tax disadvantage under prevailing law in 2006 relative

13. At year-end non-residents had amassed 49% of the outstanding balance of public book-entry debt. On the equities secondary market trading by them accounted for 57% of the total, according to figures for the January–October period (see Annexes I.4 and I.5).

14. During the period reviewed household gross capital formation rose by 13% (29.7% in 2005), whereas gross savings dropped by 13.9% (-0.7% in 2005).

Net acquisition of financial assets by households¹

TABLE 1.5

Million euros

	2002	2003	2004	2005	2006 ²	% chg 06/05 ³
Cash and deposits ¹	36,701	29,202	42,953	54,604	51,778	49
Securities other than shares	3,850	873	895	3,138	6,227	96.6
Shares and other equities	6,057	22,425	16,796	17,102	-1,003	—
Listed shares	2,396	-825	-229	92	-5,861	152
Unlisted shares	392	4,540	1,626	-70	-1,802	—
Other equities (excluding funds)	1,482	819	2,786	401	1,077	247.8
Mutual fund units	1,788	17,890	12,850	17,001	5,295	-63.6
Shares issued by investment companies	0	0	-237	-321	288	—
Insurance underwriting reserves ⁴	18,248	14,105	15,058	16,813	7,463	-24.8
Other accounts receivable	-2,028	3,580	5,222	3,907	3,141	15.0
Total	62,827	70,185	80,923	95,565	67,607	7.3

Source: Bank of Spain, «Financial Accounts of the Spanish Economy».

1. Includes non-profit institutions serving households.

2. Figures for 9M06.

3. Percentage change for 9M06 on 9M05.

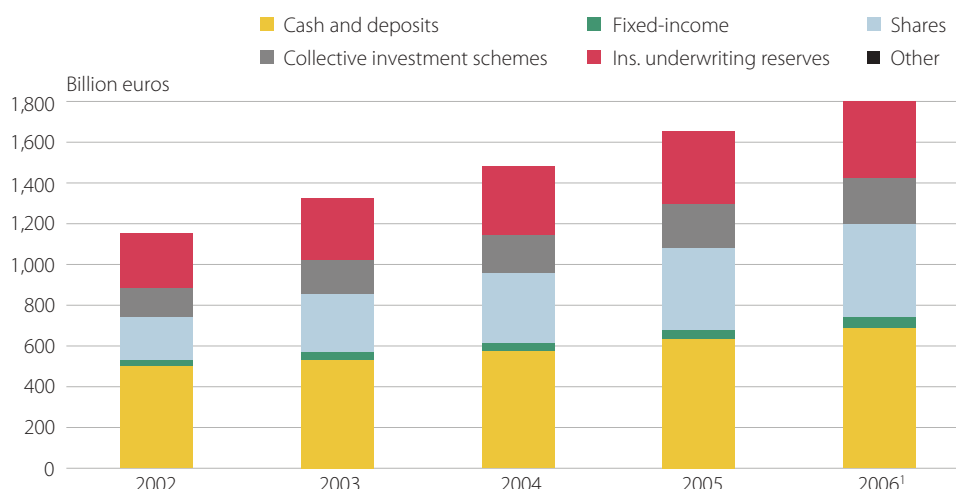
4. Includes pension plans

to shares and mutual funds and which will obtain comparable treatment under the incoming law.

Households' financial assets climbed by 8.7% to the third quarter as a result in almost equal proportions of net asset acquisition and portfolio gains. As Figure 1.18 suggests, the breakdown for these did not alter substantially (see Annex I.2 for further details). Cash and deposit holdings accounted for 38.3% of them, fixed-interest securities 3% and shares 25.3%. The weight of collective investment and insurance underwriting reserves and pension funds dropped slightly to 12.6% and 14% respectively.

Households' Spanish financial assets

FIGURE 1.18



Source: Bank of Spain, "Financial Accounts of the Spanish Economy".

1. 2006, third quarter balances.

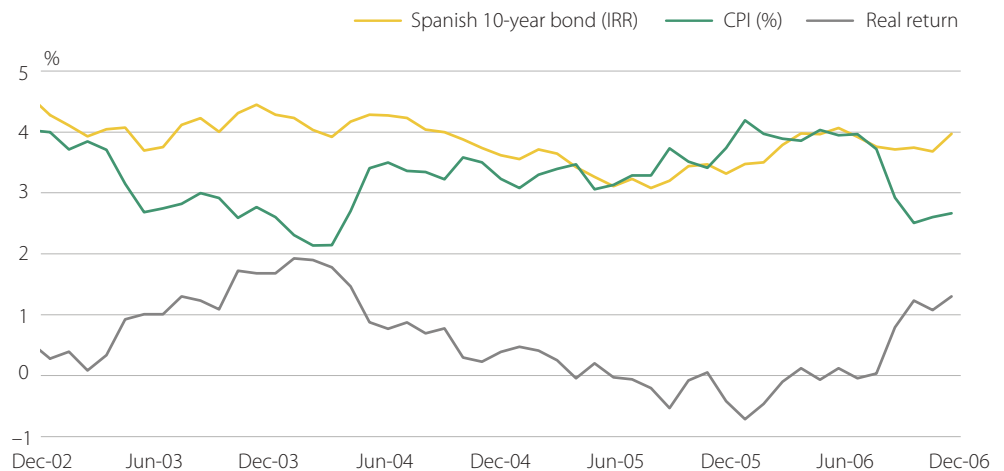
1.2.4 Performance of Spanish markets

The world economic scenario and the progress of the Spanish economy provided a setting that was reasonably positive for the domestic equity market though somewhat less so for the fixed income market.

The money and fixed income markets moved side by side with euro area markets. Short-term interest rates rose steadily throughout the whole year¹⁵, probing levels similar to those of the first half of 2002. Yields for medium- and long-term debt sustained an unbroken climb through to July. Thereafter, as forecast inflation abated due to a falling oil price they embarked on a downward course, yet despite this, yields ended the year higher than at the close of 2005. These trends for yields and restrained inflation over the year caused real long-term interest rates to turn positive again from August onwards, having been negative for a large part of 2005 and 2006 (see Figure 1.19).

Long-term debt yields

FIGURE 1.19



Source: Datastream and CNMV

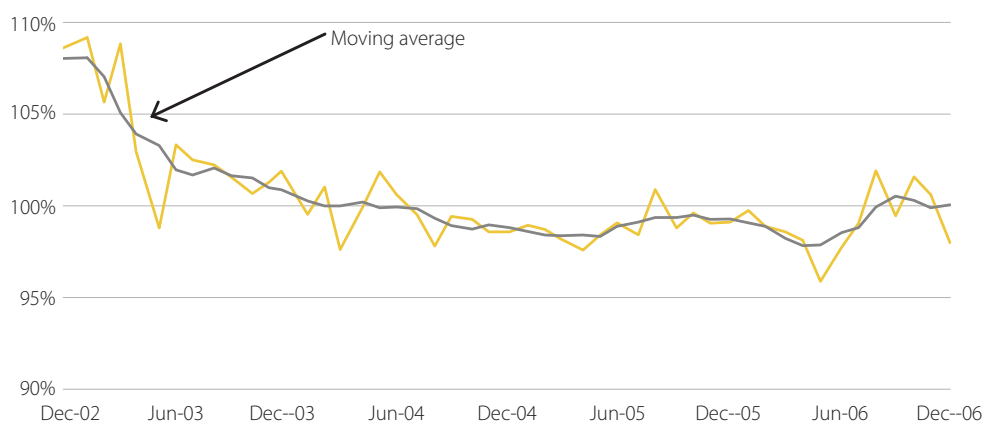
Investor risk aversion in Spanish equities as measured by the risk premium in the derivatives market held at relatively low levels in 2006 (see Figure 1.20). This situation is consistent with the generally bright economic situation and reinforces the demand for risk-bearing assets by investors.

In the case of equities, favourable trends for corporate profits and the step-up in mergers and acquisitions drove prices up. The Ibx 35 index achieved a rise of 31.8% in 2006, despite the sharp correction felt by the Spanish stock exchange in May-June, as was also experienced by the world's leading stock markets, due to renewed fears of a rise in interest rates in the United States. This performance marked the fourth year in a row of a bull phase. Though rises were across-the-board, notable ones came from housing-related companies, with the

15. By about 1.5 percentage points over three months.

Risk aversion index¹

FIGURE 1.20



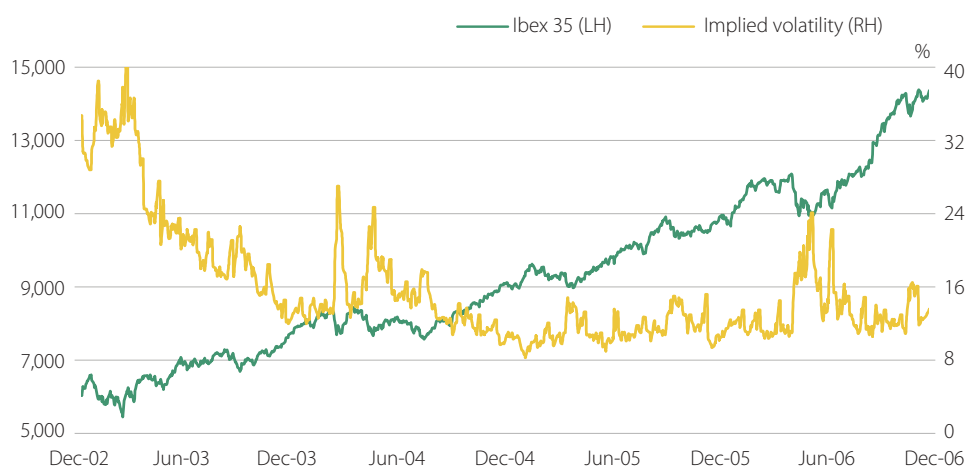
1. Spline indicator. See "La aversión al riesgo en el mercado español de renta variable y sus determinantes." Monografías CNMV. Nº 9. 2005

construction sector index soaring up by 61.0% and that for real estate companies by 111.2%.

Volatility on the Spanish stock exchange held at modest levels, apart from in the period referred to, mid-way through the year, when it rose considerably (see Figure 1.21). Despite the rise in stock market prices, the price to expected earnings ratio remains below its historic average for the Ibex 35, although it is actually higher than those for other euro area indexes¹⁶.

Ibex 35 performance and implied volatility¹

FIGURE 1.21



Source: MEFF.

1. Implied volatility published by MEFF for the derivative contract with the nearest expiry date.

16. According to IBES Datastream figures, at year-end the PER for the Ibex 35 was 14.3, which was lower than its historic average of 16.3. This ratio was however higher than that for other European indexes such as the DJ Eurostoxx 50, which showed a reading of 11.9.

It should be made clear that shareholder returns did not come just from price rises for securities as the direct remuneration on these was again increased (see Table 1.6). This development is consistent with the trend of raising dividends and other forms of pay-outs to shareholders begun following the burst of the technology bubble, during which period priority had been given to holding onto profits to create value. Dividends distributed thus increased by 50.2% in 2006¹⁷ and the shareholder remuneration as a whole by 19.6%. Analysis of the remuneration policies of Ibox 35 companies shows that the additional return due to dividend pay-outs was 4.3% in 2006¹⁸ (see Figure 1.22).

Shareholder remuneration¹

TABLE 1.6

Million euros

	Dividends	Issue premium refunds	Reduction in par value with refund of capital contribution	Total	Total/previous year's capitalisation (%)
2000	7,011.7	51.2	323.4	7,386.4	1.6
2001	8,474.4	42.0	217.2	8,733.6	1.7
2002	8,446.8	28.8	223.8	8,699.3	1.8
2003	9,411.5	2,480.8	273.0	12,165.2	3.3
2004	11,678.0	2,288.8	208.5	14,175.4	3.1
2005	14,435.7	4,463.8	224.0	19,123.5	3.4
2006 ²	21,678.3	429.4	761.2	22,869.0	3.5

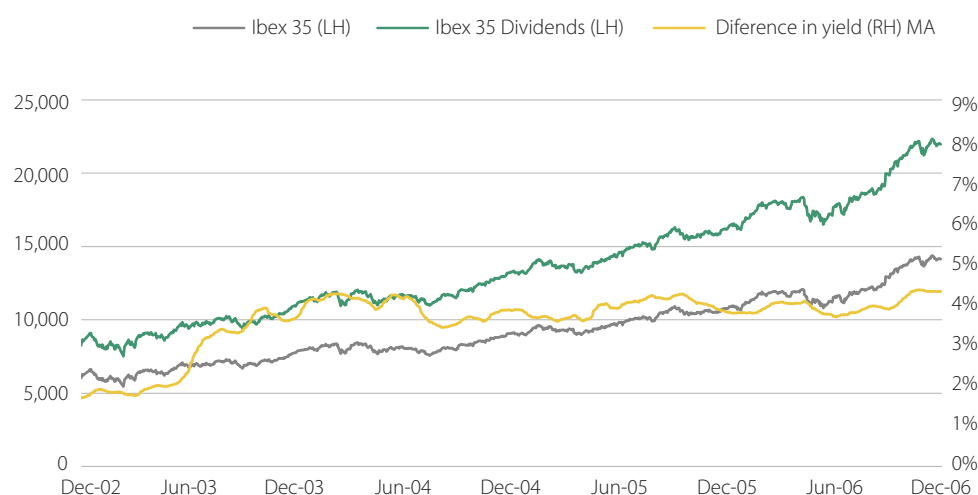
Source: Bolsas y Mercados Españoles. "Informe de mercado 2006".

1. Figures for companies listed on the Madrid Stock Exchange.

2. From January to November 2006.

Dividend pay-out performance by Ibox 35 companies¹

FIGURE 1.22



Source: Sociedad de bolsas

1. Difference in annual yield between the Ibox 35 with dividends and the Ibox 35. Monthly moving average.

17. Figures to November 2006.

18. This additional return is estimated as the difference in annual return between the Ibox 35 including dividends with these being reinvested and the standard Ibox 35 without doing this. In 2005 this gap had been 3.8%.

II Markets and issuers

2 Equity markets

This chapter describes activity on Spanish securities markets and domestic organised share-trading systems. Their performance is broken down by companies traded, the value of these, their share volume traded on these markets and financial transactions involving them.

Prices for shares listed on stock exchanges rose for the fourth successive year. This advance had a clear influence on the market capitalisation and trading volume figures shown below, although it does not account for trends in securities markets in itself.

2006 was a busy year in terms of corporate activity. There was a flurry of takeover bid activity, a high number of flotations and new share issues, and several companies on the electronic system were delisted.

There were also two notable new additions to Spanish market structures. On the one hand an organised trading system for SICAVs opened for business known as the Alternative Stock Market (Mercado Alternativo Bursátil, MAB) and on the other hand five index funds were listed on the market.

2.1. Market size

2.1.1 Market capitalisation

The market capitalisation of the Spanish stock markets grew by 26.5% in 2006 to 831.578 billion euros. This was in the main due to the advance in share prices, listings for several companies and issuing activity. These variables offset the reduction in value caused by the delisting of several companies, including Telefónica Móviles, and the transfer of 2,348 SICAVs to the Alternative Stock Market (MAB), an organised trading system specialising in companies of this type (see Table 2.1).

The sector market capitalisation breakdown (see Table 2.2) shows the performance of company prices in general terms, particularly in the energy and water sector, which includes electricity companies, and the real estate company sector. The mining and base metals sector also grew due to the listing on the Spanish stock exchange of Mittal Steel. The only sectors which saw their market capitalisation fall were transport and communications, with the delisting of Telefónica Móviles, and SICAVs, owing to the large number of them moving to MAB.

Capitalisation of equities in the Spanish stock markets

TABLE 2.1

Million euros					
	2003	2004	2005	2006	% chg 06/05
Total markets	464,499.7	560,271.7	657,132.1	831,577.6	26.5
Electronic market	433,971.0	525,695.1	616,684.7	813,764.7	32.0
Spanish	384,338.6	470,960.6	552,370.1	708,163.8	28.2
Foreign ²	49,632.4	54,734.6	64,312.7	105,600.9	64.2
Open outcry³	30,139.9	34,284.0	40,140.1	17,420.2	-56.6
of which SICAVs ⁴	24,915.3	28,972.7	33,997.6	9,514.9	-72.0
Madrid	23,146.8	21,278.8	24,936.2	9,946.4	-60.1
Barcelona	5,216.5	8,392.5	10,086.7	7,370.3	-26.9
Bilbao	3,467.8	2,472.3	2,919.5	1,532.4	-47.5
Valencia	3,182.3	4,910.8	4,832.0	2,858.7	-40.8
Second Market	388.8	292.5	307.4	392.7	27.7

Source: CNMV

1. Includes only the market values of companies that were traded in during the year.
2. Excluding Latibex and ETFs.
3. The market capitalisations of companies traded by open outcry in more than one market are included in each of the markets along with their corresponding price. In the Open outcry total they are included only once.
4. Only includes those investment companies registered as IICs listed on stock markets.

Listed companies by sector at 31/12¹

TABLE 2.2

Market capitalisation in million euros					
Sector	2005	2006	2005	2006	% chg 06/05
Oil	2	2	40,460.5	47,880.6	18.3
Energy and water	11	11	74,707.0	105,748.8	41.6
Mining and base metals	10	11	18,278.0	66,774.4	265.3
Cement and construction materials	6	5	4,195.3	6,093.0	45.2
Chemicals	4	4	25,789.5	29,389.3	14.0
Textiles and paper	20	20	20,829.2	33,302.4	59.9
Metal-mechanical	14	16	35,552.3	36,001.6	1.3
Food	18	17	19,049.6	21,093.2	10.7
Construction	7	7	36,968.8	59,518.4	61.0
Real estate	30	30	21,582.6	50,165.9	132.4
Transport and communications	9	7	121,302.0	103,726.7	-14.5
Other non-financial	22	21	33,831.3	40,745.5	20.4
Total non-financial sector	153	151	452,546.0	600,439.8	32.7
Banks	15	15	163,142.2	210,899.9	29.3
Insurance	2	2	5,099.1	7,379.2	44.7
Portfolio companies	15	15	2,322.1	3,314.0	42.7
SICAVs ²	3,112	745	34,022.7	9,542.7	-72.0
Finance houses	1	1	0	1.9	—
Total financial sector	3,145	778	204,586.1	231,137.7	13.0
Total	3,298	929	657,132.1	831,577.6	26.5

Source: CNMV

1. Excluding companies traded on Latibex or on MAB. Market values at year end.
2. Only includes SICAVs listed on stock markets. It does not therefore cover those SICAVs which moved to the MAB OTS but it does embrace a SICAV traded on the electronic market.

Table 2.3 shows how equity market capitalisation is still very concentrated, as a large slice of its total value is attributable to a small number of securities. Nonetheless, the delisting of Telefónica Móviles, the fourth largest company in value terms in 2005, lifted the number of companies required to account for 50% of market capitalisation by two, from 8 to 10. The companies in the Ibex 35 represented 69.4% of the total value of shares traded on the stock market.

Concentration of equity market capitalisation¹

TABLE 2.3

No. of companies required to attain a given percentage

	2005				2006			
	25%	50%	75%	100%	25%	50%	75%	100%
Total markets	2	8	23	3,298	3	10	24	931
Electronic market	3	8	20	126	3	9	23	135
Spanish	3	7	19	121	3	7	21	129
Foreign ²	1	2	2	5	1	2	3	6
Open outcry	16	149	764	3,158	3	15	115	784
Second Market	1	2	3	14	1	2	2	12

Source: CNMV.

1. Market values at each year-end.

2. Excluding Latibex, MAB and ETFs.

The market capitalisation of listed companies on Spanish stock exchanges had a value equal to 85.2% of nominal GDP and trading volume one of 117.8%. These figures place Spain on a similar footing to those European countries whose stock exchanges are included in Euronext and clearly ahead of Germany and Italy. Within the European Union the London market is the biggest relative to its economy and in absolute terms (see Figure 2.4).

Market capitalisation and trading volume relative to current-euro GDP

TABLE 2.4

%

	Market capitalisation		Trading volume	
	2005	2006	2005	2006
New York	106.9	116.4	113.4	164.5
USA ¹	136.5	147.7	199.1	258.2
Tokyo	107.6	108.3	99.1	133.5
London	145.4	150.3	255.6	317.6
Euronext ²	86.3	101.4	88.2	108.4
Germany	46.3	53.8	55.3	93.8
Italy	47.7	52.7	54.9	85.2
Spain	72.6	85.2	94.3	117.8

Source: International Federation of Stock Exchanges, Datastream and CNMV.

1. The numerator is the combined total value of the NYSE, Nasdaq and American SE.

2. The denominator is the combined total of the current-euro GDP for France, The Netherlands, Belgium and Portugal.

2.1.2 Listed companies

Without taking into account the SICAVs (OEICs) traded by open outcry, the number of companies listed on stock markets at year-end 2006 was 185, two less than at the close of the previous year (see Table 2.5). The decline in the number of companies with a listing was chiefly due to delistings for companies other than the IICs listed for trading by open outcry. As already mentioned, 2,348 SICAVs switched listings from the official market to the MAB, a new organised trading system.

In the electronic market there were 12 newcomers, among the more notable due to their market capitalisations being Mittal Steel, Astroc and Bolsas y Mercados Españoles. Most of those companies joining were first-time listings on stock markets (see Section 2.2 for further information).

In the open outcry and the second markets there was a sizeable fall in the number of companies listed. Excluding the SICAVs, whose exodus to MAB was for reasons outlined in Section 2.5.2, the number of companies traded by open outcry dropped from 47 to 38, and in the second market from 14 to 12. This decrease is part of a historic trend whereby most companies choosing to list prefer to do so directly on the electronic market.

Companies listed on the Spanish stock exchanges¹

TABLE 2.5

	Total market	Total mkt. Ex SICAVs ⁴	Electronic market			Open outcry		Second Market
			Total	Spanish	Foreign	Ex SICAVs	SICAVs ⁴	
Total no. of companies								
Listed at 31/12/05	3,298	187	126	121	5	47	3,111	14
Listed at 31/12/06	929	185	135	129	6	38	744	12
Listed in 2006	35	13	12	11	1	1	22	0
New listings	33	11	11	10	1	0	22	0
Listed due to mergers ²	0	0	0	0	0	0	0	0
Change of market	2	2	1	1	0	1	0	0
Delisted in 2006	2,404	15	3	3	0	10	2,389	2
Delistings ³	2,395	9	2	2	0	6	2,386	1
Delisted due to mergers ²	7	4	1	1	0	3	3	0
Change of market	2	2	0	0	0	1	0	1
Net change in 2006	-2,369	-2	9	8	1	-9	-2,367	-2

Source: CNMV

1. Excluding Latibex and MAB.

2. Only mergers with other listed companies are considered.

3. The 2,348 SICAV delistings to change markets refer to those which moved to the MAB Organised Trading System.

4. Only those SICAVs traded by open outcry are considered.

2.1.3 Delistings

Not including the IICs which transferred to MAB, in 2006 there were 54 delistings¹, four of these due to mergers with another listed company.

As already mentioned, on the electronic market Telefónica Móviles was delisted (this having been listed in 2000) following its merger with parent company Telefónica. In addition to this, after separate takeovers trading ceased in Transportes Azkar and Cortefiel. Comparing this data with 2005, there is a noticeable fall-off in activity by venture capital firms leading to company delistings.

In the open outcry market there were 2,398 delistings. Of these, 2,348 were SICAVs which moved across to MAB. Without taking these into account, 50 companies were delisted which had been traded on the open outcry market.

By market capitalisation, with respect to 2005 the largest delisting was Telefónica Móviles, which had accounted for 6.2% of the value of the electronic market in December 2005, whereas the other two companies delisted from the electronic market barely represented 0.3% of this. The 9 non-SICAV companies which delisted from the open outcry market represented 3.2% of its market capitalisation at year-end 2005.

Examination of the reasons behind delistings in 2006 reveals that a little under half (40.7%) of these were from certain SICAVs voluntarily deregistering from the Administrative Register of Collective Investment Institutions. 22.2% of delistings were prompted by company liquidations and 7.0% by merger activity. There were seven cases over the year which occurred at the request of the issuer, three through the so-called intermediate procedure, two due to takeovers and one because the issuing company failed to comply with its obligations.

2.2. Listings, share issues and public offerings

Fund-raising by listed companies and public share offerings escalated in 2006. Such activity was encouraged by the strength of security prices in recent years, the increasing cost of funding through fixed income due to the interest rate rises referred to in Chapter 1, and the enhancement of administrative facilities set in place by regulation.

Simplification of information for issuing and selling shares

The required procedures for raising funds by issuing or selling shares have changed considerably over the last two years. The transposition of the Prospectus Directive¹ meant modifying the Securities Market Law² and passing Royal Decree 1310/2005 on listings, public offerings for sale or subscription and the required prospectuses. As a result, in certain circumstances the obligation has been removed for the issuer to publish a prospectus.

For example, in the event of a sale of or subscription for securities which exclusively addresses qualified investors³, this will not be considered a public offer and so there will be no obligation to publish a prospectus for it. If a qualified investor later sells these securities on, the re-sale will be examined to ascertain whether this should be subject to the prospectus requirement.

If the shares issued belong to the same class as shares already listed, it will not be mandatory to publish a listing prospectus provided that their amount is less than 10% of the latter. A prospectus will not be required either if the listing relates to another transaction for which sufficient information has already been published or the company is already listed on a market of a Member State of the European Union.

Both in 2006 and in part of 2005 Spanish listed companies began to carry out their new shares issues according to this simplified procedure, which makes such moves far more flexible. For example BBVA raised 3 billion euros through a placement for institutional investors without the need for an issue prospectus, it being sufficient to officially notify the CNMV when the shares were admitted for listing on the stock exchange. A further example was the listing on Spanish stock markets of company Mittal Steel. On the grounds that this company was already listed in an EU Member State, coming to the market on Spanish exchanges did not require a prospectus approved by the CNMV, as it used its “European passport” to take up its listing without further ado.

1. Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted for trading and amending Directive 2001/34/EC.
2. Amended under Royal Decree Law 5/2005 of 11 March on urgent reforms to enhance productivity and improve public trading.
3. Royal Decree 1310/2005 itself gives a more comprehensive definition of those investors deemed as qualified and describes the creation of a register for them. Besides this case, there are other situations where the Securities Market Law exempts from publishing a prospectus, such as when the offering targets less than 100 people per Member State, when it amounts to a total of less than 2.5 million euros or where the minimum investment is less than 50,000 euros.

Capital raised through the 80 new share issues by companies listed on Spanish stock markets in 2006 amounted to 26.507 billion euros (see Tables 2.6 and 2.7). This figure represents a sizeable increase on previous years. It should in any event be realised that three of these new share issues, to a value of 18.278 billion euros, were carried out by European companies (Mittal Steel and EADS) whose activities are supervised by other Member States².

In 2006 there were 11 stock market listings by new companies and an attempt is on record by Lanetro Zed to do so, which eventually did not go through. Out of these, one was Mittal Steel’s listing, which did not require a listing prospectus as it comes from the Netherlands. Of the Spanish companies which floated, five did so just through a public offering, one used a subscription offering and four used a combination of both methods. In terms of the effective amount placed, the most notable IPOs were Bolsas y Mercados, Técnicas Reunidas, Grifols and Vocento.

By sectors the largest values achieved through new share issues and public offerings were in mining and base metals, with 63.1% of the total, due to the share issues made by iron and steel company Mittal to acquire Arcelor. After this sector, the ferment of activity in housing construction in Spain was mirrored by listings and new share issues by real estate companies which reached a total of 3.868 billion euros.

New share issues and public offerings¹

TABLE 2.6

	Number of issuers		Number of issues	
	2005	2006	2005	2006
Capital increases	37	53	51	80
Of which: primary offerings ²	0	6	0	10
with Spanish tranche	0	6	0	9
with international tranche	0	1	0	1
Secondary offerings	1	10	2	15
with Spanish tranche	1	10	1	14
with international tranche	1	3	2	3
Total	38	58	53	87
Pro memoria: IPOs:				
Via primary or secondary offerings ²	1	11	2	17
Others ³	0	1	0	1

Source: CNMV.

1. Includes all registered offerings, even if they did not finally go through. Only those offerings are included for securities which are listed or for which a listing is sought on official markets.
2. Primary public offering: A public subscription rights offering where existing shareholders waive their preferential rights.
3. Others include the listing of Mittal Steel on the Spanish stock market, which did not require a prospectus as it was already listed on another European Union official market.

New share issues and public offerings: effective value¹

TABLE 2.7

Million euros		
	2005	2006
Capital increases	3,097.5	26,506.9
Of which: primary offerings ²	---	644.9
with Spanish tranche	---	613.6
with international tranche	---	31.3
Secondary offerings	157.1	2,458.7
with Spanish tranche	54.6	2,167.5
with international tranche	102.5	291.3
Total	3,254.6	28,965.7
Pro memoria: IPOs:		
Via primary or secondary offerings ²	157.1	3,103.7
Others ³	---	6,620.0

Source: CNMV.

1. Those amounts registered which did not eventually go through are not included. Only those offerings are included for securities which are listed or for which a listing is sought on official markets.
2. Primary public offering: A public subscription rights offering where existing shareholders waive their preferential rights.
3. Others include the listing on the Spanish stock exchange of Mittal Steel. The value shown is its market capitalisation on 28/07/06.

2.3. Trading

2.3.1 Spot trading

Trading volume on Spanish stock markets for the whole of 2006 was 1,149,930 million euros, topping the thousand billion mark for the first time and up 34.7% on the previous year. This increase stemmed as much from the price rise in shares traded as from turnover, as the numbers of orders and matched bargains on the electronic market rose by 26.6% and 34.2% respectively.

As usual, the bulk of trading was done on the electronic market, where activity swelled by 35.0%. Business on open outcry markets dipped by 9.9% due to the move by a large proportion of SICAVs to the MAB organised trading system. If trading in these IICs in 2006 on the two markets is aggregated, turnover would have risen by 31.5%.

Equities trading

TABLE 2.8

Million euros					
	2003	2004	2005	2006	% chg 06/05
Total markets	493,765.3	641,742.4	853,588.1	1,149,930.3	34.7
Electronic market	489,307.3	636,527.4	847,663.7	1,144,562.9	35.0
Spanish	486,799.0	630,361.7	832,548.6	1,133,012.6	36.1
Foreign	2,508.3	6,165.7	15,115.1	11,550.3	-23.6
Open outcry	4,444.7	5,193.7	5,898.5	5,317.1	-9.9
Madrid	3,009.8	3,316.0	3,671.1	3,231.5	-12.0
Barcelona	871.1	1,123.6	1,560.2	1,192.3	-23.6
Bilbao	147.5	212.7	241.7	403.1	66.8
Valencia	416.3	541.4	425.5	491.3	15.5
Second Market	13.3	21.3	25.9	49.3	93.8

Source: CNMV

1. Excluding Latibex, MAB and ETFs.

Most trading on the electronic market was still of the “regular session” type (see Table 2.9). Within this, block-trading, which is used especially by larger foreign institutional investors, once more gained in relative weight, although the increase was very similar for order-based trades, which remains the most significant type.

The step-up in activity on the electronic market meant that turnover velocity, as measured by trading volume to average market capitalisation, increased substantially over the year to 162.7%. Nonetheless, market depth, understood to mean the percentage of market capitalisation needed to move the Ibex 35 by 1%, slipped back slightly in 2006, though it held at historically high levels.

Trading in the banks and transport and communications sectors alone represented 54.0% of the effective trading volume for 2006 (see Table 2.10). Although trading is highly concentrated on these sectors, this effect has been dropping off in relative terms in the last two years.

In terms of individual companies (see Table 2.11), trading concentration decreased in the last year as, while in 2005 it only took three companies to account for 50% of trading volume, in 2006 four were needed³. The most heavily traded company in 2006 was BSCH, surpassing Telefónica for the first time. The Ibx 35 companies represented 89.3% of total share trading on the stock market at year-end.

Trading on the electronic market by type¹

TABLE 2.9

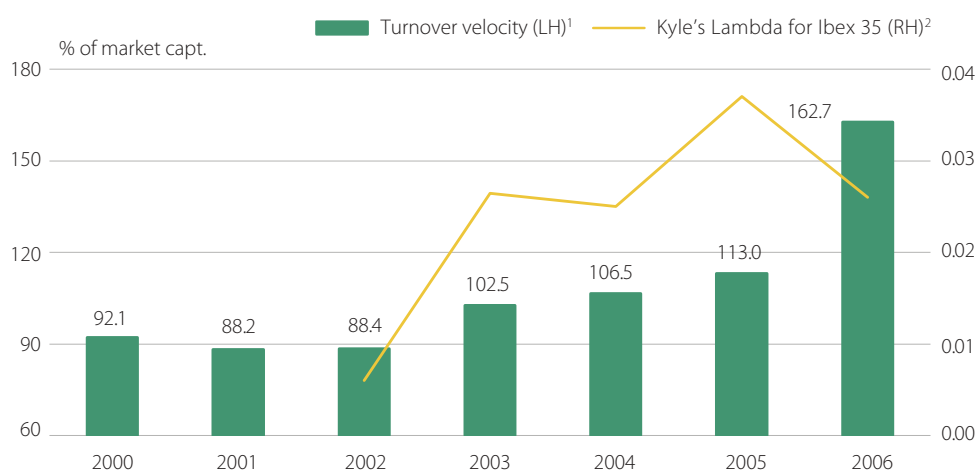
Million euros					
	2003	2004	2005	2006	% chg 06/05
Regular session trading	455,745.8	599,874.2	798,934.52	1,081,224.9	35.3
Orders	272,384.1	353,532.0	488,416.30	659,351.0	35.0
Put-throughs	60,127.7	71,360.1	82,403.14	106,491.1	29.2
Block trades	123,233.9	174,982.0	228,115.08	315,382.7	38.3
Off-hours	15,947.6	26,037.3	27,863.00	11,917.4	-57.2
Authorised trades	3,009.8	1,367.2	4,773.43	4,454.8	-6.7
Art 36.4 SML trades ²	4,704.1	826.0	1.33	6,439.7	—
Tender offers	4,823.7	1,698.8	6,682.77	18,094.6	170.8
Public offerings	417.4	3,057.2	226.35	3,264.0	1,342.0
Pre-registered off-market	747.8	278.5	2,298.89	10,399.2	352.4
Options exercise	3,911.0	3,388.3	5,268.01	8,279.8	57.2
Hedging	—	—	1,615.44	2,315.6	43.3
Total trading	489,307.3	636,527.4	847,663.7	1,146,389	35.2

Source: CNMV

1. Excluding figures for trading on Latibex or MAB. Does include figures for ETFs.
2. Other, extraordinary dealing not subject to all the rules of operation for an official secondary market but which are reported to them.

Liquidity on the continuous market

FIGURE 2.1



Source: Sociedad de Bolsas and CNMV.

1. Percentage of annual total trading volume / average monthly market capitalisation.
2. Percentage of market capitalisation needed to move the Ibx 35 index by 1%.

³ The new company within this group is Endesa, whose share trading volume in 2006 was up by 78.3% on the year before. The other three companies are BSCH, Telefónica and BBVA.

Securities market trading by sector

TABLE 2.10

% of total trading	2004			2005			2006		
Banks	37.8			35.3			34.4		
Transport & communications	22.9			21.3			19.6		
Energy and water	12.3			13.6			15.9		
Oil	8.2			7.8			7.6		
Construction	3.0			3.9			4.0		
Real estate	0.9			1.5			3.6		
Food	3.6			3.6			3.4		
Other sectors ¹	11.4			13.0			11.5		

Source: CNMV

1. Other sectors includes mining and base metals, cement and construction materials, chemicals, textiles and paper, metal-mechanical, other non-financial, insurance, portfolio companies, SICAVs and finance houses.

Concentration of equities trading on Spanish stock markets¹

TABLE 2.11

No. of companies required to attain a given percentage ²	2005				2006			
	25%	50%	75%	100%	25%	50%	75%	100%
	Total markets³	2	3	9	3,303	2	4	11
Electronic market	2	3	9	132	2	4	10	142
Spanish	2	3	8	126	2	4	10	138
Foreign	1	1	2	6	1	2	2	8
Open outcry	10	59	232	3,159	18	86	274	3,105
Second Market	1	1	2	15	1	1	2	11

Source: CNMV

1. Excluding Latibex, MAB and ETFs.
2. Total number of companies whose shares were actually traded in the year on each market. Therefore (i) those companies are excluded which were listed but did not show any trading activity, (ii) companies are included which were delisted during the years but whose shares were traded and (iii) companies which have moved markets and have been traded on both are included under both markets with the appropriate trading levels in them.
3. The number of companies under total markets may be less than the sum of the number of companies in each market due to the presence of companies which have changed markets.

The number of members of securities markets, through which trade on them is executed, again fell in 2006, ending the year at 63⁴ (see Table 2.12). Of these 37 were broker-dealers, 17 were banks and the rest were brokers. Although 46.0% of members only operate on one of the stock exchanges, there are 6 firms which are present on all four⁵, two more than the previous year. Most business centres around a small cluster of members, as 8 of them acted as intermediaries in 50.3% of the total.

4. Five companies which were members in 2005 ceased membership and 2 new companies emerged.

5. Ahorro Corporación Financiera, BBVA, Banesto Bolsa, La Caixa, Renta 4 and Santander Investment Bolsa.

Market members

TABLE 2.12

Markets and issuers
Equity markets

	2005				2006			
	Broker Dealers	Brokers	Banks	Total	Broker Dealers	Brokers	Banks	Total
Madrid Stock Exchange	32	8	13	53	31	6	14	51
Barcelona Stock Exchange	21	6	7	34	21	3	9	33
Bilbao Stock Exchange	6	1	2	9	7	1	3	11
Valencia Stock Exchange	19	2	4	25	17	1	8	26
Total exchanges ¹	38	12	16	66	37	9	17	63

Source: Official Spanish Stock Market Bulletins.

1. The total is not equal to the combined sum for every stock exchange as several members are listed for more than one of them.

2.3.2 Margin trading and securities lending

Spanish securities market regulations provide for two strategies to sell securities short and one to buy them on credit.

Borrowing facilities for securities to sell them or cash to purchase them are regulated by the Ministerial Order of 25 March 1991. Trading of this type is open to any kind of investor and was devised for securities belonging to the Ibex 35. As already happened in 2005, this type of trading again grew during the year, with the outstanding balance on lending for selling standing at 73.6 million euros and that for buying at 70.1 million.

Securities lending can be conducted for a wider range of securities and, as with the aforementioned ones, it is permitted so as to boost market liquidity. It is mostly institutional investors, both domestic and foreign, who are the main exponents of this method, whose trading activity increased by 39.8% in 2006. However, at year-end the net outstanding balance for onlending had been pared down by 7.0% with respect to the last day of 2005⁶.

Margin trading for sales of securities and securities lending

TABLE 2.13

Million euros

	Margin trading for sales of securities ¹		Securities lending ²	
	Outstanding balance	Trading volume	Outstanding balance ³	Trading volume
2001	8.5	174.1	20,141.4	89,606.00
2002	7.8	161.2	14,125.3	106,983.20
2003	17.3	199.8	28,873.1	161,775.20
2004	18.2	139.2	54,518.5	306,056.70
2005	28.5	152.2	66,737.5	393,964.10
2006	73.6	379.9	62,058.2	550,850.39

Source: CNMV

1. Trades carried out under the Ministerial Order of 25 March 1991 on the margin system in spot transaction.
2. Regulated under article 36.7 of the Securities Market Law and Order ECO/764/2004.
3. Total balance less any amount lent on.

6. Relative to the market capitalisation of the electronic market, the outstanding balance on securities loans net of onlending was 7.6% at year-end 2006, compared to 10.8% the previous year.

Margin trading for securities purchases¹

TABLE 2.14

Million euros		
	Outstanding balance	Trading volume
2001	43.1	534.1
2002	31.5	382.9
2003	32.8	346.1
2004	46.7	401.8
2005	52.3	465.0
2006	70.1	511.9

Source: CNMV

1. Trades carried out under the Ministerial Order of 25 March 1991 on the margin system in spot transactions.

2.4. Takeover bids

In 2006 authorisation was given for 21 takeover bids⁷ of which four failed to go through as they were abandoned under the competing takeover bid regime (see Table 2.15) and one was in its acceptance period at the close of 2006.

No information is included in this section regarding a further five offers tabled in 2006 for which the official approval formalities had not been completed in the course of the year. These involved bids for Sablia XXI, for delisting for TelePizza and Fadesa Inmobiliaria (already authorised), and for Tafisa and Ayco Grupo Inmobiliario (at the formal procedural phase).

Takeover bids

TABLE 2.15

Million euros					
	2002	2003	2004	2005	2006
Authorised ¹					
Number	17	13	9	13	21
Potential value ²	5,589	7,535	2,048	7,511	62,615
Completed ³					
Number	17	12	9	9	14
Value ⁴	4,318	4,335	1,973	6,822	18,997

Source: CNMV

1. Authorised in the year.

2. Does not include the potential value of abandoned bids. The offer for Endesa is included at its final value following the revision authorised in February 2007.

3. All those authorised in the year, even if they finalise in the following one, excluding unsuccessful or abandoned ones. The 2006 figures do not include one offer with an open acceptance period (Endesa).

4. The value of the bid for Arcelor only includes figures for the Spanish market.

As the Table above shows, both the value and number of bids surpassed the figures for previous years in remarkable fashion. Notable features of the bids authorised during 2006 were as follows:

- Purpose of the offers: In 14 of the 21 cases the intention of the offer was to gain control of the target company, this being understood to mean having a stake of over 50% of the share capital, either without having a holding beforehand (11 cases) or by building on a position (three cases).

Of the remaining seven bids, four were intended to raise the offeror's stake without taking control for securities market purposes and targeted only part of the shares (partial takeover bids) and the other three were launched by stakeholders who already held over 50% of the share capital with the following objectives: One for a delisting (Cortefiel), one to consolidate the controlling interest attained following a capital reduction (an undertaking assumed by OHL under its share buy-back programme which was disclosed to the CNMV), and the third to extend the terms of an agreement with a shareholder to the others (Sotogrande).

The partial bids ended with proportional allotment in two cases when acceptances passed the maximum number of shares they targeted. On the other hand the offer for OHL was not accepted by any shareholders.

- Offers significant due to their size. Notable here was E.ON's offer for Endesa worth a potential 41.027 billion euros and made for cash. Also very substantial was the bid for Arcelor with a volume transacted in the Spanish market of 1.881 billion euros but where the total amount across all markets together reached 25.401 billion euros. Authorisation was also given in 2006 for a further six bids with potential values of over 1 billion euros (Inmobiliaria Colonial, Urbis, TPI, the two offers for Metrovacesa and Unión Fenosa).
- Bids launched in several markets. Mittal Steel's bid for Arcelor was made simultaneously in France, Belgium, Luxembourg and Spain. Additionally, both in the case of Arcelor and the two bids made for Endesa, a parallel offer was tabled in the United States.
- Competing bids. Nine competing bids were formally presented for four companies: Endesa, Tele Pizza, Metrovacesa and Europistas. All four cases reached the procedural stage whereby improved bids were made in sealed envelopes, resulting in increases in the offer price in all of them except one (Metrovacesa). The latter case is notable for there having been competing partial offers for the first time, with a positive result for both.

Only in the context of competing bids were any rejected by the boards of target companies, this being in some cases on the grounds of the price being too low and in others due to the circumstances of the offer.

- Bids which pursue different merger structures where the resulting company remains listed: In five of the bids made in 2006 the offeror declared its intention to perform some kind of merger or corporate restructure where the resulting company would remain listed (Inmobiliaria Colonial, Urbis, Arcelor, Europistas and Parquesol). Except for the case of Inmobiliaria Colonial, where it was to be absorbed by a company already listed in Spain, planned restructure involved merging with companies previously unlisted or not in Spain. Consequently these kinds of move engender companies of a larger size which are traded on

the stock market in contrast to those bids which are designed to achieve a delisting for the target company.

- Conditional bids: The 14 offers aimed at gaining control and one of the partial offers (Sogecable) were conditional upon obtaining a minimum number of shares. The minimum was achieved in all cases which were eventually completed.

Furthermore, in four cases the bid was made subject to changing restrictions on voting rights and other constraints imposed by the articles of association. Despite this, in none of these was the condition met. In the case of Tele Pizza the proposed resolution regarding such change at the shareholders' meeting was not passed and the offerors withdrew the condition. On the other hand, with respect to the bids for Endesa, Gas Natural withdrew its offer before the shareholders' meeting was held to vote on the proposal and E.ON voluntarily retracted its condition.

- Offers involving prior agreements with key shareholders. Nine of the offers authorised in 2006 included prior agreements with reference shareholders in the target company. Except in one case (Sotogrande), such agreements arose in bids aimed at taking control. Of these six were pledges to accept which implied the exit of the previous controlling shareholder and two were agreements whereby the reference shareholders retained investments in the company and took on the role of co-offerors together with a new financial (Tele Pizza) or industrial (Europistas) partner.

Regarding the outcomes of these bids, all of them were successful except one (for Europistas by the Isolux group), which was withdrawn after the presentation of a competing offer.

- Automatic price corrections. In seven of the bids authorised in 2006 the consideration was subject to an automatic correction of the price under certain situations: payment of dividends (both offers for Endesa), bonus issues (both offers for Europistas) or both (as in the case of Metrovacesa). Finally, in Arcelor's case certain broader circumstances were involved in relation to price corrections in response to the need to coordinate with regulations and practices in other markets where it was listed.
- Share exchange offers and concerning securities other than shares. Three share exchange offers were officially processed in 2006, one straight swap (NH for Sotogrande) and two mixed ones (Mittal Steel for Arcelor and Gas Natural for Endesa). On the other hand, four of the authorised offers were for shares and convertible bonds (Arcelor and the three offers for Tele Pizza).

2.5. Organised trading systems

2.5.1 Latibex

The Latibex organised trading system allows shares listed on Latin American stock exchanges to be traded in Spain. This market is managed by Bolsas y Mercados

Españoles and uses the electronic market platform to offer European investors the opportunity to buy and sell these shares in euros. According to the FTSE Latibex All Share index the annual return was 23.8% in 2006, compared to 83.9% in 2005. It should be remembered that this index is calculated in euros and not in the local currencies for each country and so it also reflects the impact of weakness of Latin American currencies in 2006 and their strength in 2005⁸.

Markets and issuers
Equity markets

FTSE Latibex All Share Index

FIGURE 2.2



Companies traded on Latibex by country

TABLE 2.16

Million euros, unless otherwise stated

Country	Number		Market capitalisation			Trading volume		
	2005	2006	2005	2006	% chg 06/05	2005	2006	% chg 06/05
Argentina	2	2	834.9	912.7	9.3	3.6	2.7	-24.8
Brazil	15	15	145,297.3	178,013.1	22.5	340.6	422.1	23.9
Chile	4	4	17,234.4	21,647.0	25.6	51.4	55.0	7.0
Costa Rica	1	1	53.2	98.0	84.2	4.5	5.5	22.6
Mexico	8	8	57,743.6	67,277.4	16.5	128.6	173.7	35.1
Panama	0	1	—	1,340.5	—	—	15.7	—
Peru	1	1	134.3	1,138.4	747.9	2.5	21.7	783.7
Puerto Rico	1	1	1,086.5	688.8	-36.6	25.6	23.9	-6.6
Venezuela	0	1	—	525.8	—	—	3.1	—
Total	32	34	222,384.2	271,641.8	22.1	556.7	723.3	29.9

Source: CNMV

The number of companies listed on this OTS rose by two companies reaching a total of 34 by year-end 2006. There were no delistings over the year and the two new

8. Even though Latin American currencies fell notably against the euro, it should be borne in mind that the real from Brazil, where the greatest number of companies came from, weakened by only 1.8%, which is a very much smaller amount than for the other Latin American currencies.

companies joining were two issuers from Panama and Venezuela⁹, two countries which no issuer had come from up to 2006.

Thanks to the rise in prices and new entrants, total market capitalisation rose from 22.1% to 271.642 billion euros. By issuer country of origin the Brazilian companies remained the most significant in terms of market capitalisation, this climbing by 23.9% for the year, thanks in part to the relatively modest fall in the Brazilian real against the euro.

Trading volume for Latin American companies on Latibex in 2006 rose to 723.3 million euros with turnover velocity for their stock increasing. A large slice of this trading was in the stock of Brazilian and Mexican companies. The market's liquidity not only grew in monetary terms but there was some trading activity in the stock of 82.5% of companies on at least 90% of business days, against a figure of 72.7% for the previous year.

2.5.2 The Alternative Market

Bolsas y Mercados Españoles (BME) set up an organised trading system (OTS), which was approved by the Spanish cabinet in 2005, for trading in the shares of SICAVs and other securities. This OTS, known as the Alternative Stock Market (Mercado Alternativo Bursátil, MAB), opened for business on 29 May 2006 and drew in some 2,348 SICAVs from the open outcry markets and a further 57 companies which began activity under this system.

These changes were made possible by the IIC Law of 2003 whereby SICAVs were no longer obliged to be listed on the stock market if an alternative system was established to provide investors with liquidity. The liquidity, back-office and information dissemination services offered by MAB for these IIC attracted a great deal of them.

The transfer of the SICAVs from the open outcry markets meant that MAB's market capitalisation reached 29.864 billion euros by the close of 2006, comfortably outstripping the value of SICAVs traded in on the open outcry markets at 9.515 billion euros. The total value of these IICs on all markets amounted to 39.379 billion euros, up 15.8% on 2005.

Liquidity is provided for the SICAVs in this market through trading of two kinds: Net Asset Value trades (where orders are entered without a price) and fixing trades (where prices are fixed twice a day). Although this new market has only been operational since May it saw trading volume of 1.814 billion euros, of which 74.8% was done through the Net Asset Value system.

Average daily trading by companies which moved to MAB fell in 73.8% of cases. Although this figure suggests that the OTS is less liquid, the market's fledgling stage

9. The two new companies listed on Latibex were Grupo Banistmo from the Panama and Electricidad de Caracas from Venezuela, the latter through ADSs issued in the USA. The Panamanian company was delisted on 07/02/2007.

should be borne in mind and the fact that besides providing shares with liquidity MAB offers other services which are attractive for such IICs.

2.6. Exchange-traded funds

In 2006 five exchange traded funds or ETFs were admitted for trading on the BME's Stock Exchange Interlinking System (Sistema de Interconexión Bursátil Español, SIBE). These IICs use the SIBE electronic platform to facilitate trading and disseminate information. Trading hours are similar to those for other shares and opening and closing auctions are also held. In Spain the investment policy of these IICs is confined to replicating a sufficiently publicly diversified index.

Despite being envisaged under IIC Regulation of 2005, it was in mid 2006 when the first ETFs were registered in Spain. Two factors have definitely contributed to this: the setting up of special trading for these on the Spanish stock exchange and the clearing up of certain doubts as to their tax treatment, basically relating to exemption from the deductions regime for funds listed on Spanish stock markets.

Of the five funds registered, three were benchmarked against the Ibex 35 and two against the EuroStoxx 50. The BBVA group acts as manager and depository for a Spanish index fund and another euro area index one and the Santander group does the same with its own Ibex index fund. Lyxor International manages the other two index funds and its depository is the Spain branch of Société Générale, which is the owner of this management company. At year-end the assets of the three Spanish funds reached 363.8 million euros and the volume of investment marketed in Spain for the two foreign funds amounted to 13 million.

The fund management companies must keep the funds' composition proportional to that of their benchmark indexes and they are the only ones empowered to issue or redeem units in their funds on the primary market. Additionally, so as to ensure liquidity for the fund, the phenomenon of market makers exists, who have to quote bid and offer prices with a maximum spread of 0.25% and a minimum size of one million euros. The minimum number of these market-makers per ETF is set at two¹⁰. In 2006 total trading volume for these IICs was 1.827 billion euros.

Although the prospects for this product were very bright, one of the possible explanations for it not having enjoyed the success expected of it could relate to the lack of effort on the part of companies to market it to retail investors, in spite of the fact that these are funds which are highly attractive to such investors as they are very transparent, having an investment policy as straightforward as replicating an index, and also have low management fees, management of them being passive.

Yet despite their limited success to date, their role in the future should be very significant, as they are drivers for competition, in particular for those funds where management is passive and tied to indexes in return for which they charge relatively high management fees (for example, guarantee funds), as ETFs can achieve higher yields through having lower fees and are more transparently managed.

10. Operating instruction 43/2006 of Sociedad de Bolsas.

3 Fixed-income markets

This chapter describes the activities of fixed-income markets in Spain, both on primary and secondary markets, in three informative blocks: a general introduction, a section on public debt and another on private fixed-income.

In 2006 primary market activity in fixed-income remained as buoyant as in previous years, being boosted by private fixed-income. Activity also expanded in secondary fixed-income markets, though more modestly. Throughout the whole year short-term debt yields increased, as did those for long-term debt for a large part of it, although these fell back over the second half.

As in previous years the bulk of primary market activity came from issues by financial institutions. Gross issues by this sector amounted to 88% of the total (84% in 2005). Of the three major sectors¹ this was the only one to lift its issuance volume above the figure for the year before. Fund-raising relating to the expansion of mortgage lending entailed by residential construction activity was still the chief driving-force behind such growth. The prevalence of gross issues over redemptions meant that there was a significant rise in net issues and the outstanding balance for such entities.

In contrast to the financial institutions, non-financial companies reduced the value of fixed-income issues made by them in spite of their growing need for funding (see Section 3 of Chapter 1). Though they were in positive numbers, net issues were very low.

Lower public net borrowing meant that the sector's issuance volume was also reduced, this being far lower than that of the private sector (see Figure 3.1). Net issuance continued to be negative, with the attendant drop in the outstanding balance in circulation. As a result of the fall-off in public sector issue activity and the rise in private sector issues, the outstanding balance on the latter again eclipsed that of public debt, even doubling it (see Table 3.1).

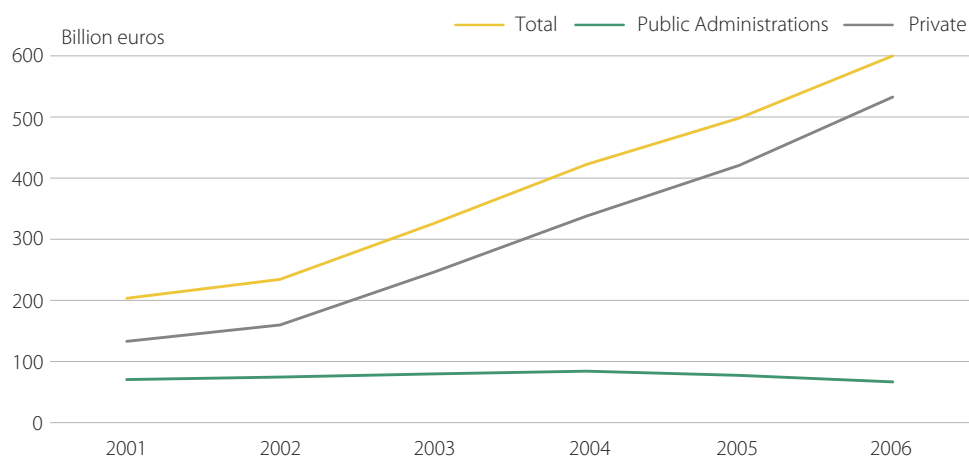
The features and the performance of the Spanish fixed-income market greatly resemble those for the euro area as regards the primary market. In 2006 the euro area also saw a decline in gross public debt issues and within private fixed-income it was among the financial institutions where issue activity was the most vigorous.

1. Public administrations, financial institutions and non-financial companies.

As in Spain, it is these which had the biggest weight both for gross and net issues overall and the balance in circulation².

Fixed-income issuance in Spain

FIGURE 3.1



Source: Bank of Spain and CNMV.

Gross issues and outstanding balances: breakdown by issuer

TABLE 3.1

Nominal amounts in million euros

	Amount ¹		% change		Pro memoria: EMU	
	2005	2006	2005	2006	2006	% chg 06/05
Gross issues	544,403	676,509	24.6	24.3	11,342,000	15.4
Public administrations	78,176	68,006	-9.2	-13.0	1,442,000	-3.7
Private fixed-income:	466,228	608,503	32.8	30.5	9,900,000	18.8
Financial institutions	455,042	597,580	33.0	31.3	8,787,000	20.3
Non-financial companies	11,186	10,923	27.7	-2.4	1,113,000	8.1
Net issues	180,141	223,510	39.6	24.1	815,200	13.5
Public administrations	6,682	-2,734	-18.3	—	112,900	-44.7
Private fixed-income:	173,459	226,244	43.6	30.4	702,300	36.7
Financial institutions	173,564	225,195	43.5	29.7	667,500	34.9
Non-financial companies	-105	1,049	18.5	—	34,800	81.3
Outstanding balance	854,663	1,075,755	27.9	25.9	11,070,000	8.1
Public administrations	346,265	342,882	2.2	-1.0	4,705,000	2.5
Private fixed-income:	508,398	732,873	54.3	44.2	6,365,000	12.7
Financial institutions	497,783	721,211	56.2	44.9	5,722,000	13.6
Non-financial companies	10,614	11,662	-1.0	9.9	643,000	5.1

Source: Bank of Spain, CNMV and ECB.

1. Includes issues made inside and outside Spain.

2. To be precise, in Spain in 2006 the outstanding balance for non-financial companies at year-end represented only 1.1% of the total in Spain compared to 5.8% within the EMU, while for gross issues this was 1.6% compared to 9.8%.

The most striking difference, however, is that gross issues by non-financial companies not only had a smaller weight than their European counterparts but also decreased, whereas in Europe they rose. European public administrations showed positive net issuance within the euro area, while in Spain this was negative. Regarding financial institutions, the Spanish ones had higher growth in terms of gross issues and the outstanding balance than European ones as well as a greater weight. Greater reliance on bank borrowing by Spanish companies compared to European ones and the greater buoyancy of construction activity in Spain along with the attendant demand for loans accounted for the financial institutions raising more funding through fixed-income issues.

3.1 Public debt

3.1.1 Issues

Gross issues by public administrations reached 68 billion euros, which was lower than in the previous year due to less issuance activity by the State as both the regional governments and local authorities showed increases. Gross issuance of fixed-income securities abroad held at very low levels (2.143 billion euros compared with 1.905 billion in 2005) and emanated exclusively from regional governments.

The initial forecasts for the year from the budget target show that both issuance and redemption for fixed-income stock issued by central government somewhat overshoot the planned figures for both Treasury bills and government bonds and debentures. The largest divergence occurred under redemptions, mainly Treasury bills, which meant that for the year there were net redemptions of the order of 4.8 billion euros whereas the estimate had been for net issues of 6.6 billion euros³.

Looking just at the public debt outright portfolio, it can be seen that the outstanding volume diminished for the year as a whole by almost 2.6 billion euros, of which roughly 2 billion was in Treasury bills and 600 million in bonds and debentures. This ebb did not affect all investment sectors equally, as while the financial and monetary institutions cut their portfolio by over 13 billion euros, non residents upped their position by more than 11 billion euros and so the biggest change in the distribution of the balance by holders was the lightening of the weight of financial and monetary institutions from 30.3% to 26.1% and the increasing share for non residents, which climbed from 44.3% to 48.5%, other changes being less significant.

Further detail of gross and net issues is given in Annexes II.10 and II.11 respectively.

3. "Estrategia de emisión de los valores del Tesoro 2006" by the Directorate-General of the Treasury and Financial Policy.

3.1.2 Trading

In terms of volume traded the Public Debt Book-Entry Market is the largest of the Spanish organised securities markets⁴, even excluding repo trading.

A distinction is drawn between two broad trading segments: trading between account-holding market members and trading between registered dealers and third parties. There are two types of trading between market members: via electronic platforms (Senaf, MTS-España, EuroMTS, Brokertec, etc.)⁵ and bilateral trading.

Trading between market members and involving third parties may be outright (spot or forward) or temporary (repos and sell-buybacks/buy-sellbacks). Within the electronic platforms, Senaf and MTS-España provide spot trading in government debentures and bonds and Treasury bills as well as in sell-buybacks/buy-sellbacks of government debentures and bonds. EuroMTS and Brokertec provide mainly spot trading in the main bond and debenture benchmarks.

Public debt trading. Overall market

TABLE 3.2

Million euros						
	2002	2003	2004	2005	2006	% Chg 05/06
Bills:	2,235,874	2,607,855	2,273,364	2,230,370	1,695,551	-24.0
Outright ¹	40,096	90,195	115,549	116,478	93,331	-19.9
Spot	40,096	89,751	114,951	116,087	92,831	-20.0
Forward	0	444	598	390	500	28.1
Repos	1,994,454	2,076,928	1,770,719	1,709,753	1,185,339	-30.7
Sell-buybacks/Buy-sellbacks	201,324	440,732	387,095	404,139	416,881	3.2
Debentures and bonds:	16,569,559	18,682,471	20,560,318	19,989,574	20,913,636	4.6
Outright	2,289,343	2,220,233	2,133,892	2,531,614	3,131,074	23.7
Spot	2,270,847	2,157,130	2,021,747	2,222,121	2,809,686	26.4
Forward	18,496	63,103	112,145	309,494	321,387	3.8
Repos	8,191,374	9,100,744	10,707,375	9,700,501	9,850,419	1.5
Sell-buybacks/Buy-sellbacks	6,088,842	7,361,493	7,719,051	7,757,459	7,932,144	2.3
Total	18,805,433	21,290,326	22,833,682	22,219,944	22,609,187	1.8

Source: Bank of Spain and CNMV.

1. Outright trading includes spot and forward dealing.

Trading in public debt including repos increased slightly (1.8%) on 2005 but if just outright trading is considered, i.e. spot and forward, the rise was very substantial (21.8%) and driven exclusively by the vigour of trading in government bonds and debentures (23.7%) as volume in Treasury bonds dropped by 19.9%. Throughout

4. Fixed income or equity.

5. Senaf and MTS-España are recognised as Organised Trading Systems (sistemas organizados de negociación, SON), which are expressly regulated by the Securities Market Law and supervised by the CNMV. EuroMTS and Brokertec are domiciled in the United Kingdom in accordance with the authorisation and supervision regime prevailing there.

the whole year trading volumes held fairly stable, although inspection of the monthly figures shows higher levels in the August-November period, when there was something of an upturn in prices. In these months the turnover velocity rate⁶ for outright spot trades in government bonds and debentures (debt strips) hit highs with values topping the 100 mark.

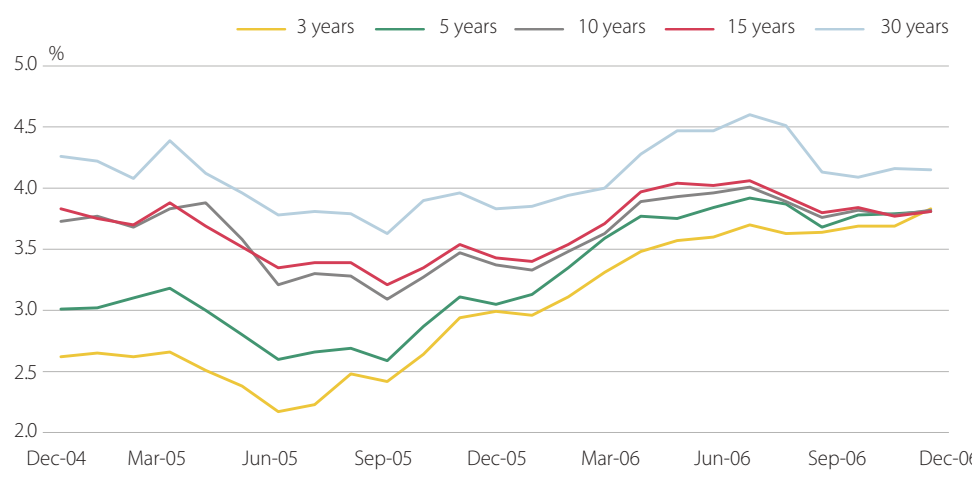
Outright trading among members fell 10.9%⁷ and 2.6% if repo trades are also included. This decline may be largely explained by the latest deterioration⁸ in trading on electronic platforms (-20.7%). However, trading by market members with third parties rose 30.8% for outright bargains and 4.1% overall, solely due to the increase in medium- and long-term debt trading. This situation is down to several factors such as a context of low interest rates, the narrow spread against German debt and low volatility, which have all provided less investment opportunities, in spite of which the market has remained attractive to final clients.

Annexes II.11 to II.15 go into greater detail about trading trends on the Public Debt Book-Entry Market.

Interest rates for Treasury bills and yields on government bonds and debentures moved upwards from the beginning of the year, being influenced by, inter alia, ECB monetary policy and expectations of a sustained rise in the oil price.

Medium and long-term public debt yields

FIGURE 3.2



Source: Bank of Spain, AIAF and CNMV.

6. Ratio calculated by the Bank of Spain for non-stripped debt as: (amount traded / outstanding balance)*100. Relative to previous periods the values attained throughout the whole year may be rated as high. The last time this had gone past the 100 mark was in January 2003.

7. Due to drops of 22.2% in Treasury bonds and 9.0% in bonds and debentures.

8. The amount of trading in public debt on electronic dealing platforms has been falling off steadily year after year since 2003 when it accounted for 13.8% of the total. In 2006 it only represented 3.7%.

Treasury bills kept up this trend throughout the whole year and closed the year with advances with respect to interest rates in December 2005 of over 100 basis points⁹ over all terms in spot trading¹⁰.

Government bonds and debentures continued to advance until July, which was when yields reached a high all along the curve except over three years, which behaved more like Treasury bills and went on rising through to December. In July interest rate rises ranged between 63 basis points over 15 years and 87 basis points over 5 years¹¹. Subsequently, as brighter prospects opened up with the hefty fall in the crude price, interest rates turned downwards, doing so more sharply at the long term¹², although they did not come to dip below those at the previous year-end. The final outcome with respect to the year before was rises of 84 basis points over 3 years, 76 basis points for five-year bonds, 45 basis points over 10 years, 38 basis points over 15 and 32 basis points over 30 years, as well as an upward shift in the rate curve although slopes flattened.

3.2 Private fixed-income

3.2.1 Instruments

Spain has two private fixed-income markets: AIAF and the stock exchanges. The markets currently trade in the following products:

- AIAF only: commercial paper and securitised commercial paper¹³, mortgage covered bonds (cédulas hipotecarias), territorial covered bonds (cédulas territoriales), mortgage-backed securities (MBS) and asset-backed securities (ABS), preference shares and other securities.
- Stock exchanges only: convertible and exchangeable bonds and debentures.
- Both markets: corporate and public non-convertible bonds and debentures¹⁴ and the former “Matador bonds”.

3.2.2 Issuers, issues and outstanding balances in the stock exchange

In 2006 the number of issuers, issues and the outstanding balance rose in both markets mentioned above, this being more acute in the case of AIAF. Issuers in the

9. Over three months this was around 1.5 percentage points (150 basis points).

10. For some maturities, such as three and six months, interest rates reached in December 2006 had not been recorded since October and August 2001 respectively.

11. These highs had not been reached in the three-year and five-year sections since the second half of 2002 and over longer terms since the second half of 2004.

12. Another factor affecting the drop in bond yields that is becoming more in evidence in research consensuses is the buying up en masse of debt by the Asian countries (China, Taiwan, Japan etc) which, although chiefly directed at US securities, also seems to be aimed at bonds of European countries.

13. Commercial paper issues by securitisation funds.

14. In both markets both private and government issued fixed income can be traded. Thinking of these markets as an arena for private fixed income is due to the fact that they were initially geared towards trading in private stock, although in recent years trading in debt issued by the regional governments has predominated in markets.

fixed-income market totalled 463, of which 21 had issues listed in both markets, 412 were only listed on AIAF and 36 solely on stock markets. There were 3,971 issues across both markets: 93% on AIAF and the other 7% in the stock markets. The outstanding balance amounted to 607.16 billion euros, with AIAF accounting for 97% of this.

Markets and issuers
Fixed-interest markets

Issuers, issues and outstanding balances for fixed-income on AIAF TABLE 3.3

Million euros

	No. of issuers		No. of issues		Outstanding balance		% Chg 05/06
	2005	2006	2005	2006	2005	2006	
Commercial paper	66	69	1,724	2,242	57,719	70,779	22.6
Bonds and debentures	362	413	1,018	1,345	290,547	377,090	29.8
Mortgage covered bonds	12	14	54	83	90,550	129,710	43.2
Territorial covered bonds	3	5	8	11	7,575	9,525	25.7
Matador bonds	20	20	32	26	2,288	1,839	-19.6
Total	384	438	2,836	3,707	448,679	588,942	31.3

Source: AIAF and CNMV.

In AIAF the outstanding balance moved up by 130 billion euros, 31.3% more than at year-end 2005. This expansion was essentially spearheaded by bonds and debentures, which include contributions of 86 billion euros by securitisation bonds and 36 billion by mortgage covered bonds. By sector, the largest issuers were banks and thrifts and financial institutions, which together accounted for 96% of the outstanding balance and 92% of issues listed in the market at 2006 year-end.

The outstanding balance on the stock exchanges¹⁵ increased by 4.8% and amounted to 17.105 billion euros at year-end. As in recent years, the Barcelona Stock Exchange was the only one where the outstanding balance rose.

Issuers, issues and outstanding balances for fixed-income on stock markets TABLE 3.4

Million euros

	No. of issuers		No. of issues		Outstanding balance		% Chg 05/06
	2005	2006	2005	2006	2005	2006	
Total	56	57	267	264	16,323	17,105	4.8
Regional	3	3	92	89	8,457	8,320	-1.6
Other	53	54	175	175	7,866	8,786	11.7
Barcelona Stock Exchange	45	46	202	201	14,103	15,198	7.8
Bilbao Stock Exchange	42	40	128	108	3,938	3,290	-16.5
Madrid Stock Exchange	34	32	111	94	3,059	2,678	-12.4
Valencia Stock Exchange	38	36	160	144	4,391	3,796	-13.5

Source: Stock exchanges and CNMV.

15. The stock market outstanding balance does not count public debt book-entry market issues, although these can be traded on the electronic market.

By broad sector, the outstanding balance for non-financial companies was down 41.1% and that for financial institutions moved up by 51.5% due to the listing of asset-backed funds on the Barcelona Stock Exchange. The public sector outstanding balance also dipped modestly (4.4%) through matador bonds¹⁶ and, to a lesser extent, debt issued by the regional governments of the Basque Country and Valencia. These developments meant that for the second year running the weight of the public sector in the outstanding balance for stock market fixed-income shrank, moving from 63% in 2005 to 57%.

3.2.3 Primary market in private fixed-income

This section looks at private fixed income issuance, breaking this down into issuers inside and outside Spain, i.e. on foreign markets without being registered with the CNMV. The consolidated figures were already discussed in the introduction (see Table 3.1).

Gross private fixed income issues within Spain¹⁷ in 2006 amounted to 523.131 billion euros, of which 93.666 billion was in issues listed on secondary markets without the requirement to officially lodge an issue prospectus¹⁸. This method is increasing its relative weight (49% in 2006) out of long-term fixed income issues, to the point where, with the exception of asset- and mortgage-backed securities, among other financial instruments the amounts issued using it have been greater than those issued with an issue prospectus. To be precise, among convertible bonds and debentures and territorial covered bonds, among non-convertible bonds and

Gross issues registered with the CNMV: breakdown by instrument TABLE 3.5

Nominal amounts in million euros

	2002	2003	2004	2005	2006	% chg 06/05
Long term	39,553	83,846	115,359	149,894	188,674	25.9
Non-convertible bonds and debentures	5,254	17,948	38,094	41,907	46,688	11.4
-of which: subordinated debt	1,909	4,076	4,395	1,905	6,555	244.2
Convertible bonds and debentures	260	187	97	163	68	-58.1
Mortgage covered bonds	11,674	17,864	19,074	35,560	44,250	24.4
Territorial covered bonds	0	4,200	1,600	1,775	5,150	190.1
Backed securities	18,803	36,740	50,525	69,044	91,608	32.7
- asset-backed (ABS)	12,027	31,710	45,635	62,194	87,308	40.4
- mortgage-backed (MBS)	6,776	5,030	4,890	6,850	4,300	-37.2
Preference shares	3,237	3,760	5,542	1,356	911	-32.8
Other issues	326	3,146	428	89	0	-
Short term						
Commercial paper	104,713	155,772	214,603	264,253	334,457	26.6
-of which, asset-backed	6,114	3,870	3,724	2,767	1,993	-26.4
Total	144,265	239,619	329,962	414,147	523,131	26.3

Source: CNMV.

16. At year-end 2006 there was still one issuer with 10 matador bond issues listed on the stock market.

17. Annexes I.25 to I.28 provide greater detail on issues registered with the CNMV.

18. RD 1310/2005.

debentures and among mortgage covered bonds this method was used for between 95% and 100% of the total issued.

By instrument the biggest relative issue weight was for commercial paper, at 64%. Within the medium and long term fixed interest band the financial instruments with the greatest issuance volume were backed securities followed by non-convertible bonds and debentures and mortgage covered bonds. Though the figures involved were lower, there was notable growth in subordinated debt and territorial covered bonds and, on the other hand, a decline in preference share issuance.

2006 saw a continued proliferation of issues made by Spanish companies on foreign markets as they sought to widen their investor base by taking advantage of the opportunities opened up by Law 19/2003¹⁹. The value of issues using this method rose by close to a sizeable 55% on the year, their weight out of total issues up from 10.6% in 2005 to 12.7%. The importance being taken on by these issues is more striking if the comparison is confined to medium- and long-term financial instruments, as in this case the proportion was 29%. What is most arresting though, is the fact that for bonds and debentures and preference shares the value of issues was greater for those made abroad than within Spain. Such issues have not listed on Spanish secondary markets.

Gross private fixed-income issues abroad by Spanish issuers

TABLE 3.6

Nominal amounts in million euros

	2003	2004	2005	2006	% chg 06/05
Preference shares	400	905	1,915	1,004	-47.6
Subordinated debt	0	2,250	1,487	5,633	278.9
Bonds and debentures	0	3,891	32,285	51,677	60.1
Total (pursuant to Law 19/2003)	400	7,047	35,687	58,314	63.4
Backed securities	10,864	13,319	13,556	17,911	32.1
Total	11,264	20,366	49,243	76,225	54.8

Source: Bank of Spain and CNMV.

In 2006 the venue for private fixed issues abroad under Law 19/2003 was split among three financial centres: London, with 62% of the total amount, Luxembourg with 31%, and New York with 7%. With respect to issue currencies, 60% of the total was in euros, 26% in US dollars, 12% in pounds sterling and the remaining 2% in other ones (yen, Canadian dollars, Swiss francs Norwegian kroner, Mexican pesos and Czech koruny).

By sector of activity, although most of these issues were made by financial institutions, it should be noted that of the 76.225 billion euros issued in 2006 on foreign markets, 15.673 billion²⁰ was issued by the subsidiaries of Telefónica (12.399), Endesa (1.3), Iberdrola (1.775) and Gas Natural (200 million).

Foreign issuance of backed securities was done solely in euros.

19. Please see Chapter 3 of the CNMV's Annual Report 2005 regarding its actions and the securities markets.

20. These companies made more issues outside Spain than within it, as issues registered with the CNMV by the issuers referred to in 2006 came to 5.41 billion euros at the short end and 4 billion at the long end.

Asset- and mortgage-backed security issues

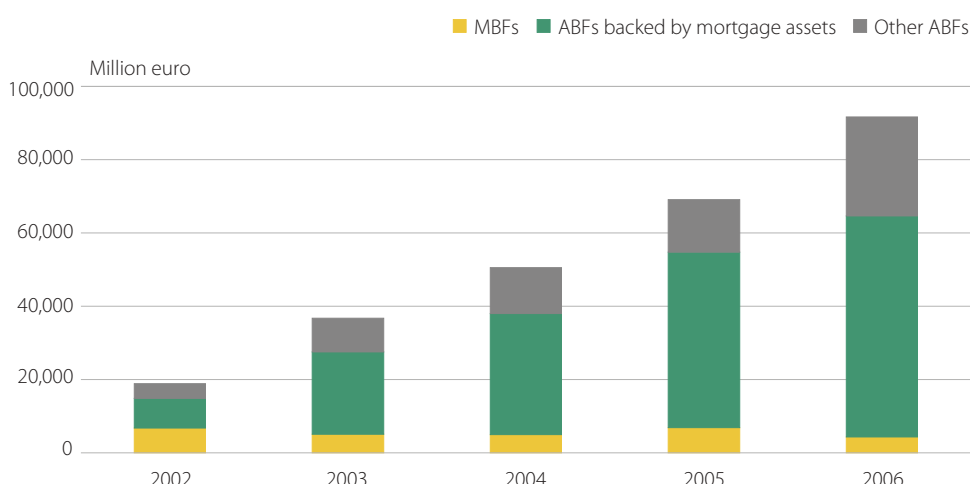
Within fixed income issues and considering the breakdown into the various financial instruments, backed securities in 2006 took second place by issue volume, only behind commercial paper, and first place if just long-term fixed income is taken into account. Backed securities may be sub-divided into asset-backed securities (ABS), which have predominated in recent years, and mortgage-backed securities (MBS) (see Figure 3.5). If securitised commercial paper is added to these, the total overall value for securitised issues in 2006 reached 93.6 billion euros within Spain and 17.911 billion euros abroad, with annual growth rates of 30% and 32% respectively.

Although mortgage-backed securities represented a low proportion of total backed issues (4.6%), it should not be inferred from this that mortgage securitisation is scarce in the Spanish market as one would have to include asset-backed securities guaranteed by mortgage loans, mortgage covered bonds and developer loans²¹ to the MBSs discussed, which would altogether amount to 69.1% of total securitisation issuance (see Annex II.21). Other ABSs which were prominent in 2006 were those backed by consumer loans (5.9%) and corporate loans (4.0%) (see Annexes II.20 and II.21).

With respect to the main individual securitised issues, the largest were in ABSs, as of the eight issues which topped 2 billion euros, seven of them were ABSs and one an MBS. The biggest value issue was handled by management company Ahorro y Titulización and was for 14.495 billion euros, which consisted of special mortgage-covered bonds. Of the seven ABS issues, the only non-mortgage backed one was for 2.03 billion and actually backed by SME loans (for further details see Annex II.20).

Asset- and mortgage-backed securities registered with the CNMV

FIGURE 3.3



Source: CNMV.

21. Although in 2006 there were no issues backed by such loans, some were actually recorded in previous years.

Change of trend in primary fixed income security markets

2006 has revealed a very significant change in fixed income markets as regards the segment targeted by issues. Inspection of statistics on placements over the last two years shows that the percentage of retail investors (in those issues typical for this group and excluding those of securitisation funds and commercial paper) who have subscribed for issues has dived from 46.1% in 2005 to 3.6% in 2006.

Although there are several possible explanations for this drop, from the CNMV's point of view the most significant stem from the content of two Directives: the Prospectus Directive, which has already been transposed, and the Markets in Financial Instruments Directive (MiFID) soon to be transposed.

With respect to the former, the changes brought in in 2005 through Royal Decree Law 5/2005 of 11 March and Royal Decree 1310/2005 of 4 November as regulatory amendments of the transposition represented a major simplification in procedures for issuing securities addressing qualified investors, as in this case no prior publication of a prospectus is required, which allows issuers of fixed income to adapt more swiftly to market conditions at any time, thereby reducing the risk of having issues open for a long time and enabling them to adjust yields offered more efficiently.

Furthermore the forthcoming transposition of the MiFID will underpin and develop the objectives and requirements contained in the prevailing code of conduct so as to afford greater protection to retail investors. This means in practice a narrowing of the spread thusfar applied between yields offered in the retail market and the qualified market, which, coupled with the last point, has led to placement in the retail market falling off substantially.

This is the rationale behind action by the CNMV designed to forestall conflicts of interest and advance the content of the MiFID to apply the code of conduct properly in the placing of long-term securities issued by financial institutions among their retail clients.

This is all the more important in that virtually all fixed income issuers are credit entities or related financial institutions which have historically used their branches to place their own securities.

3.2.4 Secondary markets in fixed-income: AIAF and stock exchanges

In Spain, private fixed-income issues are traded via AIAF and the stock exchanges²². In AIAF, trading can be done in two segments: the first one is among market

22. Neither of these two markets trade exclusively in private fixed income.

members and the second one is between market members and their clients. Trading with clients is bilateral but among market members this can be done bilaterally or electronically (Senaf).

On stock exchanges trading can be electronic or by open outcry. The electronic trading system²³ interconnects the four stock exchanges; the traditional open outcry²⁴ segment exists in all the stock exchanges except the Madrid stock exchange.

In 2006 trading in fixed income rose moderately, both through AIAF and on stock exchanges. In nominal terms the overall figure topped the thousand billion euro mark for the first time (1,000.252 billion euros), of which 910.494 billion was through AIAF and 89.758 billion on stock exchanges (see Tables 3.7 and 3.8).

Total trading on AIAF

TABLE 3.7

Nominal amounts in million euros

	2002	2003	2004	2005	2006	% chg 06/05
By type of asset						
Commercial paper	212,702	265,604	291,903	408,185	489,069	19.8
Bonds and debentures	52,146	94,694	227,127	404,410	344,698	-14.8
Mortgage covered bonds	4,164	16,745	46,014	60,061	70,113	16.7
Territorial covered bonds	-	3,939	3,357	2,740	3,659	33.5
Matador bonds	3,458	3,107	3,629	2,416	2,954	22.3
Total	272,470	384,089	572,030	877,812	910,494	3.7
By type of transaction						
Outright	86,587	142,861	242,333	322,819	386,369	19.7
Repos	151,008	191,866	197,778	284,520	330,840	16.3
Sell-buybacks/Buy-sellbacks	34,876	49,362	131,919	270,473	193,285	-28.5

Source: AIAF and CNMV.

Trading volume recorded on AIAF in 2006 was 910.494 billion euros, which was up by a modest 3.7% on the previous year. This trend is analogous to that mentioned for the public debt market in that growth came with a decline in the volume traded among market members (-27.3%) (see Annex II.22) and a 18.7% rise between market members and third parties.

Of the volume traded in 2006, over half (53%) was in commercial paper, mainly in transactions between market members and their clients (445.421 billion) and

23. As SIBE does for equities, the electronic fixed income market interconnects trading on the four Spanish stock exchanges in real time. This is an order-driven market in which private fixed-income and public debt securities are traded electronically via the market members' trading terminals. Securities are traded continuously and electronically, all activity is disclosed in real time, and the market is anonymous in terms of both orders and trades.

24. In the Barcelona and Bilbao stock exchanges, public debt issued by the corresponding regional governments is classified as open outcry although trading is via the telephone.

basically through repos²⁵ (315.746 billion). The second highest trading volume in this market was in securitisation bonds, with 28% of the total and amounting to 257.629 billion euros, of which a little over half was in sell-buybacks/buy-sellbacks among market members, and lastly the largest slice of the rest of volume was in outright transactions with third parties.

If trading in traditional bonds and debentures (81.421 billion) is added to this and mortgage covered bonds (70.114 billion) these account for 99% of trading in the market over the year. Among these assets the bulk of trading was in outright transactions between market members and third parties, although trading among market members in sell-buybacks and buy-sellbacks was significant too.

The increase in activity on AIAF in 2006 was small, due to the turnaround in the trend for one of its major components, bond and debenture trading which for the first time shrank back after several years on the rise. The downturn was basically from the drastic fall-off in own-account trading in sell-buybacks and buy-sellbacks with securitisation bonds.

Growth in trading as a whole was shored up by commercial paper, which accounted for over half of the total, and mortgage covered bonds. The drop referred to in bond and debenture trading essentially focused on sell-buybacks and buy-sellbacks among market members.

On stock markets the lion's share of trading was done on the Barcelona Stock Exchange which, with a volume of 85.383 billion euros, accounted for 95% of the total nationally and was concentrated on public debt securities issued by the Catalonia regional government, the figure for this category amounting to 80.3 billion euros.

Asset-backed securities also saw a surge in trading, reaching 5.9% of stock market trading.

Fixed-income trading on stock exchanges

TABLE 3.8

Nominal amounts in million euros

	2002	2003	2004	2005	2006	% chg 06/05
Total	64,861	66,566	77,017	87,998	89,758	2.0
Regional governments	63,998	64,758	76,259	83,204	84,261	1.3
Other	800	1,753	717	4,758	5,462	14.8
Public debt book-entry market securities	62	55	41	36	36	-1.3

Source: Stock exchanges and CNMV.

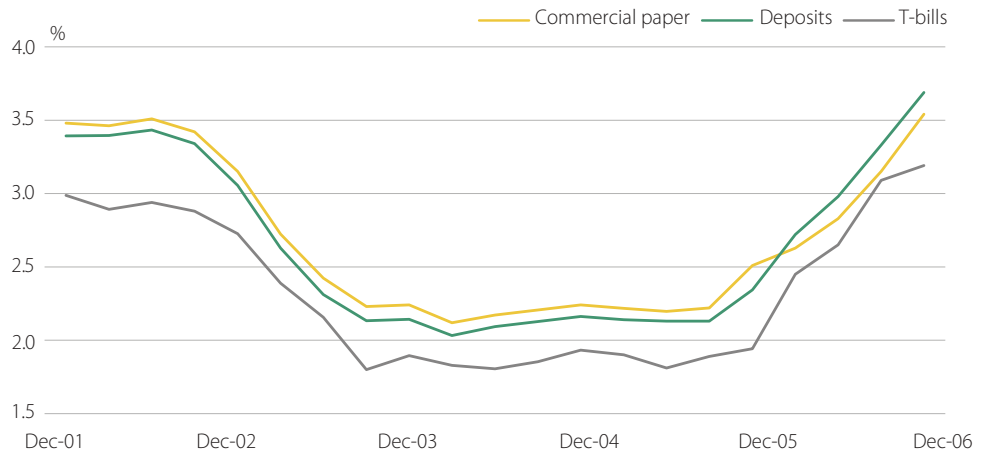
The corporate debt risk premium remained low over the year and even fell slightly in the case of short-term debt.

25. Repo trades were only done on AIAF in transactions with third parties and 95% in commercial paper.

Interest rates on three-month commercial paper rose 103 basis points over the whole year, with the spread against Treasury bills narrowing by 22 basis points over the same term, and besides this they stayed below deposit rates, as had been the case since the year before.

Yields on commercial paper, interbank deposits and three-month repos

FIGURE 3.4



Source: Bank of Spain, AIAF and CNMV.

The ten-year corporate debt yield rose by 44 basis points over the whole year, 8 basis points less than ten-year public debt, and both benchmarks tracked virtually parallel courses throughout the year.

Long-term fixed-income yields: private and public debt

FIGURE 3.5



Source: Bank of Spain, AIAF and CNMV.

4 Record-keeping, counterparties, clearing and settlement

There are five securities clearing and settlement platforms for Spain's spot markets. Those five platforms are managed by four central securities depositories: Iberclear (with the Iberclear CADE and Iberclear SCLV platforms), SCLBarcelona, SCLBilbao and SCLValencia. Iberclear operates with securities traded nationwide and the other platforms with securities traded only in their respective stock exchanges. Iberclear is also the central registrar for securities traded in Spain's spot markets, although the Bilbao, Barcelona and Valencia stock markets keep a record of the securities that are settled there.

As for counterparty activity, until the Law on Financial System Reform Measures was passed in November 2002, this service was confined to the realm of official derivative product markets, where this was provided by MEFF itself. Since 2003 MeffClear has provided this service to other segments, specifically debt trading on SENAF and some of the bilateral debt transactions traded on other platforms¹.

Iberclear is supervised by the CNMV, while the other three central depository systems, SCLBarcelona, SCLBilbao and SCLValencia, are monitored by the regional governments of Catalonia, the Basque Country and Valencia, respectively. The CNMV is also in charge of supervising MeffClear.

4.1 Iberclear

The “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal», whose trade name is Iberclear, is in charge of registering, clearing and settling securities in Spain. Iberclear is 100% owned by the Bolsas y Mercados Españoles (BME) holding company and it focuses principally on securities traded on the stock exchanges, public debt market and AIAF. At 2006 year-end, Iberclear had 231 members, thirteen less than at 2005 year-end (see Table 4.1).

In general, the activity indicators of the two platforms managed by Iberclear (Iberclear-CADE for securities traded in the AIAF fixed-income market and the Public Debt Book-Entry Market; and Iberclear-SCLV for securities traded on the stock exchanges and Latibex) reflected trading performance in their benchmark markets (see Chapters 2 and 3).

1. Under the bilateral agreements for debt traded outside the SENAF platform it is the parties that decide whether the trade is settled through Iberclear or Meffclear.

Iberclear members		TABLE 4.1
	2005	2006
Total Iberclear¹	244	231
Members of:		
Stock exchanges	98	93
Latibex	85	79
AIAF	74	73
Public debt	199	190

Source: Iberclear

1. The total is lower than the sum of clearing members in the various markets since many companies are members of more than one market.

4.1.1. Iberclear-CADE

A total of 4,132 issues were registered in this platform at year-end, with a nominal value of 954.445 billion euros. Issues listed on AIAF accounted for 92.0% of the total and 64.0% of the total registered value. Public debt and AIAF market issues were up notably on the year before, as were their nominal values (see Table 4.2).

In 2006 Iberclear-CADE settled a total of 8,611.836 trades, of which 83.4% were in the Book-entry debt market and the rest on AIAF. The number and amount of public debt trades decreased with respect to the year before, while trading rose in AIAF (see Tables 4.3 and 4.4). This merely mirrors the trend in recent years whereby trading volume in terms of contract numbers of corporate debt has grown at a brisk clip, whereas public debt trading has tended downwards. As usual, within the public debt book-entry market the most numerous trades were repos and sell-buybacks and buy-sellbacks. For trading on AIAF the most numerous were traditional spot trades, even though an increasing share was in outright transfers.

Iberclear - CADE. Record-keeping activities		TABLE 4.2					
Million euros							
	Public debt		AIAF		Total		% var
	2005	2006	2005	2006	2005	2006	
Registered securities							
Number of issues	315	331	2,889	3,801	3,204	4,132	29.0
Nominal amount	337,539	343,914	449,798	610,531	787,337	954,445	21.2

Source: CNMV.

Iberclear - CADE. Number of settled transactions

TABLE 4.3

Type of transaction	Public debt		AIAF		Total		% chg.
	2005	2006	2005	2006	2005	2006	
Outright trades	204,683	233,814	745,345	788,343	950,028	1,022,157	7.6
Repos and sell-buybacks and buy-sellbacks	6,697,683	6,303,971	86,116	108,470	6,783,799	6,412,441	-5.5
Outright transfers	417,428	483,166	174,285	488,187	591,713	971,353	64.2
Temporary transfers	226,735	185,759	1	0	226,736	185,759	-18.1
Financial guarantee transfers	225	1,278	2,349	18,848	2,574	20,126	681.9
Total	7,546,529	7,207,988	1,008,096	1,403,848	8,554,850	8,611,836	0.7

Source: CNMV.

Markets and issuers
Record-keeping,
counterparties, clearing
and settlement

Iberclear - CADE. Amount for settled trades¹

TABLE 4.4

Million euros

Type of transaction	Public debt		AIAF		Total		% chg.
	2005	2006	2005	2006	2005	2006	
Outright trades	3,252,731	3,960,190	411,578	474,810	3,664,309	4,435,000	21.0
Repos and sell-buybacks and buy-sellbacks	46,419,258	45,487,738	1,097,185	1,026,220	47,516,443	46,513,958	-2.1
Outright transfers	10,256,602	13,459,453	1,900,110	2,859,383	12,156,712	16,318,836	34.2
Temporary transfers	735,231	579,540	1	0	735,232	579,540	-21.2
Financial collateral transfers	9,317	49,618	52,584	437,411	61,901	487,029	686.8
Total	60,673,139	63,536,539	3,408,874	4,797,824	64,072,696	68,334,363	6.5

Source: CNMV.

1. Effective amount for outright trades, repos and sell-buybacks and buy-sellbacks; nominal amount for outright and temporary transfers.

In 2006 the number of failed settlements (incidents involving insufficient securities being provided on the settlement date) dipped by 1%, which represents a decrease of 4% in terms of the volume of the shortfall. Non-resident entities were responsible for the most failed settlements.

The number of failed settlements overdue on the CADE platform constitutes a very insignificant share of the total settled (0.003% of trades and 0.007% of the amount settled).

4.1.2 Iberclear – SCLV

4,846 issues were registered with Iberclear-SCLV at year-end 2006, with a nominal value of 89,151 billion euros. Although issue numbers were up on the year before, their nominal amount slipped back slightly (see Table 4.5).

Including all the Spanish stock exchanges and Latibex, 21,884,828 trades were settled in 2005, with an effective value of 2,708,253 million euros. The number of trades settled rose by 28.1% on 2005, whereas the actual volume grew by 34.2%.

This performance is consistent with events in the market, where the number of trades climbed.

Besides handling settlement for securities trading, Iberclear does transfers between market members provided that ownership of such stock is retained. Transfers may be free of payment or versus payment. Transfers free of payment dropped a little in 2006, while those versus payment rose, both in number of trades and in the actual amount (see Table 4.6).

Iberclear SCLV. Record-keeping activities

TABLE 4.5

Million euros						
Registered securities	Stock exchange			Latibex		
	2005	2006	% chg.	2005	2006	% chg.
Number of issues	3,540	4,846	36.9	36	38	5.6
Registered amount ¹	90,253	89,151	-1.2	79	202	155.7

Source: CNMV.

1. Nominal amount for the stock market and actual for Latibex.

Iberclear SCLV. Transactions settled

TABLE 4.6

Million euros								
Transactions	Stock exchange				Latibex			
	No. of transactions		Amount		No. of transactions		Amount	
	2005	2006	2005	2006	2005	2006	2005	2006
Purchases and sales	16,021,281	20,738,244	1,703,151	2,281,955	59,884	87,180	1,101	1,454
Failed settlements	67,174	52,926	11,332	11,332	2,245	2,942	48	128
Buy-ins	1,383	600	152	152	4	6	—	—
Transfers fop	306,650	297,948	—	—	1,133	1,542	—	—
Transfers vp	689,102	756,087	314,204	424,672	1,117	3,827	42	172
Total	17,017,033	21,792,279	2,017,355	2,706,627	62,134	92,549	1,143	1,626

Source: CNMV.

Transfers fop = transfers free of payment. Transfers vp = transfers versus payment.

Despite the high activity levels within the system, settlement efficiency has noticeably improved on the previous year², attaining results similar to those recorded in 2004, though with considerably higher volumes (rising 80.6% in actual amount and 44.1% in trade numbers). Failed settlements³ out of the total represented 0.44%, a notable improvement on the figure of 0.67% recorded in 2005. The number of non-settled sales by the right date accounted for 0.26% of total transactions, against 0.42% for the year before.

2. The high average achieved the year before was marked by operational problems deriving from the coming into force of the current matching system for transfers, known as SUC-Transfers (SUC-Traspasos) and regulated by Iberclear Circular 7/2004.

3. A settlement is deemed as having failed if the Iberclear member responsible for the sale does not deliver securities pledged on the settlement date of D+3, where D is the date the stock was traded.

4.1.3. Innovations and improvements

Markets and issuers
Record-keeping,
counterparties, clearing
and settlement

Introduction of new operations

In 2006 Iberclear began to perform record-keeping, clearing and settlement functions for trading in shares issued by SICAVs (open-end investment companies) in the new Alternative Stock Market (MAB)⁴.

Early in the year Iberclear brought in the facility of using the CADE platform to subscribe for securities through the mechanism of delivery versus payment⁵.

Technical improvements

Fixed-income Single Matching System (SUC-Fixed Income):

Iberclear continued to work on implementing the final touches to the project known as the Sistema Unificado de Case (Single Matching System, SUC), which it has been developing since 2005. The SUC is part of the Single Communications Interface (Ventana Unificada de Comunicaciones) project which has been undergoing development since 2003 and is intended to: improve connectivity by unifying the information exchange systems between the two platforms (SCLV and CADE), make headway in standardising by using international standard 15022 and fuse matching procedure for bilateral trading. The SUC is framed within this last objective.

The last part of SUC implemented in 2006, SUC-Fixed Income (SUC-Renta-Fija) specialises in matching orders by fixed-income market participants and will service securities registered and settled on the CADE platform. This new procedure will allow active members to report and match their orders more flexibly and efficiently, as among its new features is a new mechanism to hold back and release orders which will cut out telephone-based pre-matching. It is scheduled to come into operation in March 2007 and will mark the completion of Iberclear's Single Communications Interface project.

Communications systems:

Iberclear started developing new direct reporting systems among members of the registration and settlement systems for securities traded on AIAF and on the Public Debt Market and Iberclear. These systems will gradually phase out the disclosure methods members used with Iberclear through the terminals linked to the Bank of Spain. The systems were originally only used for reference purposes but in September 2006 their use broadened to reporting net changes in third party accounts and confirming positions in AIAF market security issues, both free of payment and versus payment for cash.

4. The Alternative Stock Market (MAB) is an Organised Trading System authorised by the Spanish government under article 31.4 of Law 24/1988 of 28 July regarding the securities market.

5. The amount for subscription settled using this dvp mechanism is 88.282 billion euros.

There are plans afoot as regards fixed income to widen the use of direct disclosure systems between Iberclear and members to bilateral trading by members. This would mean that members would completely cease to use the Bank of Spain's terminals for their computer-based exchanges with Iberclear.

Risk management

To reduce the risk of trades not being settled, upon the request of the CNMV and the Bank of Spain, on 31 May 2006 Iberclear presented the Action Programme for Managing Stock Market Settlement Risk (2006-2007). The programme contains the following measures:

- Making special trades bilateral.
- Implementing an algorithm for matching up buys and sells which tends towards minimising strings of failed settlements.
- Stepping up the number of daily multilateral cycles.
- Promoting means of stock-lending needed to back up delivery of security certificates.
- Reviewing criteria to lodge market collateral.

Through Circular 5/2006 of 25 October on Market Deposit Guarantees, Iberclear decided to put its programme into practice and deal with part of the issue set out in the last of the measures included in the programme. The circular amends the criteria for working out the amount that members must lodge as a deposit to cover obligations from unsettled trades. The point of the amendment is to improve risk hedge for such trading as, since the last amendment settlement volumes have swelled and there have been changes in clearing and settlement procedures.

To be precise, the circular actually ushered in a set of changes in the calculation method used. Calculation of the deposit thus shifted towards being based on reckoning the amounts to be settled. In this way the minimum deposit that has to be lodged by members was raised. Changes were also made to how risk was calculated for trading in the market, henceforward being counted as from the dealing date and assigning the risk on trading yet to be settled to the person inputting trades into the system at any time. The circular works on the premise that the person who first brings in the risk is the member who brokes the trade on the market and they can only be relieved of this risk burden when a settlement company other than them emerges and takes on settlement of the trade. Lastly the circular provides for members to assign another member to arrange and produce their deposit, as it does for another member (under certain circumstances) to assume liability beforehand for the trades dealt with other market members.

The other measures under the Action Programme for Managing Stock Market Settlement Risk (2006-2007) are expected to be rolled out over 2007.

Special Register for Securities Lending

Markets and issuers
Record-keeping,
counterparties, clearing
and settlement

At the proposal of the CNMV, Iberclear resolved to improve the Special Loans Register through instruction 5/2006. This instruction allows members to update and cancel two kinds of securities lending transactions in the Special Loans Register. The first type are securities loans that are financial transactions under a clearing agreement where a situation has occurred of early redemption. The second case contemplates transactions where any of the following circumstances coincide: expiry on the part of the borrower or lender and certain corporate moves and corporate transactions involving the securities loaned out.

In the April-September 2006 period updates effected under Instruction 5/2006 accounted for a fall in the gross outstanding balance of approaching 63 billion euros, or 44.5% of the total. Nonetheless, given that various problems are still coming to light in making proper updates, above all in cancelling onlending transactions, the CNMV entrusted Iberclear with setting up working groups including key participants, issuers, stock exchange representatives and ISLA⁶ to look into possible additional measures which need to be taken.

System for settling equities allotment rights

Iberclear also improved the system for settling allotment rights. On 12 December 2006 Iberclear published Instruction 16/2006, designed to update procedure for settling transactions on the SCLV platform and which includes in calculation of the balance of allotment rights for each business day the securities that entities are to receive due to transfers entered on that same settlement date.

RENADE

Lastly, away from securities market activity, 2006 has been the first full year where Iberclear managed the National Register for Greenhouse Gas (GHG) Emission Allowances (RENADE). The opening of accounts was completed for the installations included under the National Allocation Plan for the 2005-2007 period, the year's mass allocation of emission allowances was carried out and for the first time emissions were verified and allowances transferred as well as cancelled.

4.2 Meffclear

Meffclear provides central counterparty services for trades in public debt instruments, mainly from the SENAF platform. It acts as a single counterparty for market members in trading relating to securities and financial instruments. When a trade is registered with Meffclear it acts as seller against the buyer and

6. International Securities Lending Association.

as buyer against seller, thereby taking on the counterparty risk. Participants have the obligation to settle their net position vis-à-vis the counterparty institution.

In 2006 Meffclear registered 552 trades for a total effective amount of 84.065 billion euros⁷. In 2005 Meffclear experienced a large decrease in both the number of transactions and the effective volume settled (see Table 4.7), which is in keeping with the decrease in activity on the SENAF platform. Meffclear's entire activity (both in number of transactions and by value) was in SENAF trades⁸.

In 2006 the same number of members (19) operated with the clearing house as in 2005. A total of 10 members made trades, which were fairly concentrated as the 5 most active members accounted for 80.8% of the total volume registered.

Activity in Meffclear

TABLE 4.7

	2005	2006
SENAF platform: effective trading	160,121	84,065
Bilateral transactions: effective trading	2,286	0
Total (million euros)	162,407	84,065
SENAF platform: number of trades ¹	1,363	552
Bilateral transactions: number of trades ²	29	0
Total	1,392	552
No. of participants	19	19

Source: MeffClear.

1. Start date 15 September 2003
2. Start date 2 October 2003

BME adhesion to the clearing and settlements Code of Conduct.

On 7 November BME signed the Code of Conduct put forward by European Commissioner for the internal market Charlie McCreevy. The Code of Conduct was drafted by the Federation of European Stock Exchanges (FESE), the European Association of Central Counterparty Clearing Houses and the European Central Securities Depository Association (ECSDA) and sets itself up as an alternative to any possible European directive on clearing and settlements systems.

The Code of Conduct consists of a catalogue of actions to ensure competition and interoperability among the European clearing and / or settlements houses.

The Code of Conduct sets out the following objectives:

7. A daily average of 455.78 million euros.

8. In 2006 the average term for SENAF trades dropped from 1.78 days to 1.52.

- Price transparency to help market participants to understand and compare prices and services.
- Interoperability among systems to enhance interconnectivity among service providing organisations and thereby provide market participants with greater freedom of choice.
- Unbundling of services and accounting separation when an organisation offers various services. This seeks to provide a competitive environment, enhance client choice and supply relevant information on services offered.

The time-table for phasing in the Code is as follows:

- Implementing price transparency by 31 December 2006.
- Establishing the conditions for access and interoperability among organisations by 30 June 2007.
- Unbundling services and implementing accounting separation as of 1 January 2008.

TARGET-2 Securities project

To improve cross-border securities settlement and smooth pan-European integration of securities markets, the Eurosystem⁹ has designed a technical platform project known as TARGET-2 Securities (T2-S). This platform would be the single one handling settlements for trading in fixed-income and equity securities, mutual funds and warrants in euros (with the added possibility of including other European currencies) free of payment or versus payment in cash and using the accounts of the central banks. T2-S would be a service provided for central securities depositories (CSDs) in Europe. Other post-trading activities, the registration and custody functions, would continue to be dealt with by the CSDs.

The main innovation presented by T2-S relative to current systems is that the CSDs would delegate securities account management to the central banks. This is the opposite of what is currently taking place in countries such as France and Belgium, where the central banks have assigned cash accounts to Euroclear to see to securities trading cash settlement. The means of settlement that T2-S would adopt would be for the overall amount from trading (BIS model DvP1), though for certain markets, particularly equities, settlement is likely to be done by netting (BIS models DvP2 and DvP3).

9. The Eurosystem comprises the European Central Bank and the national Central Banks.

On 27 February 2007 the Council of the European Union issued a note backing the T2-S project, together with a set of recommendations directed at the T2-S contributing to the creation of a more efficient and solvent securities clearing and settlements market in Europe. The Council's chief recommendations were:

- that membership of T2-S by CSDs should be voluntary.
- the T2-S platform should perform national and cross-border settlement at a lower final cost than the lowest borne by CSDs in Europe.

5 Spain's derivatives markets

Activity in Spanish derivatives markets rose in 2006. The liquidity of the major shares listed on the Spanish stock market, growing participation by non-residents and increased volatility, above all from May to August, lifted trading in equity derivatives on MEFF. Trading in warrants on the electronic market also rose, doing so at a brisker pace than in preceding years.

5.1 MEFF

Activity on MEFF stepped up at a faster pace than was seen on the rest of the main European derivatives markets, confirming the turnaround in the trend noted in 2005. The other European markets except Euronext, where trading slipped, expanded at roughly two percentage points below the clip at which MEFF grew (see Table 5.2). Once again, most of the trading in financial derivatives in Europe was concentrated in the Eurex and Euronext markets.

As has become the norm in recent years, Spanish share futures were the most traded product on MEFF by number of contracts. Trading in these products has grown steadily since their launch in 2001. In 2006 trading topped 21.2 million contracts, meaning a rise of 12.8%. Positions open at year-end waned however, dipping from 1.9 million in late 2005 to 1.6 million at the end of 2006¹. As Table 5.3 shows, trading remained clustered around contracts on the six companies with the greatest liquidity and market capitalisation². The performance of trading in these shares was uneven as BBVA and BSCH futures trading advanced at a very much swifter pace than the average, whereas Telefónica and Endesa futures trading fell heavily.

Share option trading was up 13.8%, reaching a figure of in excess of twelve million contracts. This surge was above all inspired by the rise in trading in Telefónica, Endesa, Iberdrola and BBVA options.

1. One possible explanation for this drop in open positions at year-end is the low volatility in the Spanish market in the latter months of 2006.

2. Telefónica, BSCH, BBVA, Endesa, Repsol and Iberdrola futures trading accounted for 95.3% of the total in 2006, a proportion very similar to that of 95.5% seen in 2004.

Trading on Spain's derivatives markets¹

TABLE 5.1

No. of contracts, except where otherwise stated					
	2003	2004	2005	2006	% chg 06/05
MEFF RF (FIXED INCOME)	1,371	98	46	15	-67.4
Debt futures	1,371	98	46	15	-67.4
MEFF RV (EQUITIES)	27,822,747	25,022,984	35,219,873	40,775,643	15.8
Ibex 35 futures	3,653,027	4,473,118	5,050,211	6,568,791	30.1
Ibex 35 Plus	3,545,942	4,354,868	4,935,648	6,408,961	29.9
Ibex 35 Mini ²	107,085	118,250	114,563	159,830	39.5
Ibex 35 options	298,159	294,753	440,747	551,062	25.0
Stock futures	12,492,568	12,054,799	18,813,689	21,229,811	12.8
Stock options	11,378,992	8,200,314	10,915,227	12,425,979	13.8
S&P contracts ³	0	—	—	—	—
Total MEFF	27,824,118	25,023,082	35,219,919	40,775,658	15.8
Electronic market	1,609,679	1,825,468	2,049,281	2,852,348	39.2
Warrants ⁴	1,609,679	1,825,468	2,049,281	2,852,348	39.2
Pro-memoria					
Total Euro MEFF	5,233,561	4,600,701	2,521,171	2,541,397	0.8
European debt futures ⁵	2,879,779	2,815,703	1,440,370	1,117,956	-22.4
European Index contracts ⁶	2,322,356	1,784,965	1,080,801	1,423,441	31.7
Others ⁷	31,427	33	—	—	—

Source: MEFF.

1. Trading volume on MEFF and EuroMEFF is expressed as the number of contracts. Differences in the underlying value of these prevent direct comparisons between products, but year-on-year comparisons are meaningful.
2. The number of Ibex 35 Mini futures contracts (multiplier of 1 euro) was standardised to the size of the Ibex 35 Plus futures contract (multiplier of 10 euro).
3. S&P Europe 350 and sector (Financial, Technology and Telecommunications) futures and options. MEFF suspended trading of these contracts on 10 November 2004.
4. Premiums traded in thousands of euros in the automated dealing module on the electronic market.
5. Includes futures on German debt (Bund, Bobl and Schatz) traded on Eurex and futures on the notional 10-year bond traded on Euronext Paris (until the connection was suspended on 30/12/2003).
6. Includes index futures on the DAX 30, DJ EuroStoxx 50 and DJ Stoxx 50 traded on Eurex, index futures on the CAC 40, DJ Eurostoxx 50 and DJ Stoxx 50 traded on Euronext Paris (until suspension of the connection on 30 December 2003), and index futures and options on the PSI 20 traded on Euronext Lisbon (until suspension of the connection on 19 March 2004).
7. Includes Euribor futures traded on Euronext Paris (until suspension of the connection on 30 December 2003) and futures and options for individual stocks (Portugal Telecom and EDP) traded on Euronext Lisbon (until suspension of the connection on 19 March 2004).

Trading in Ibex 35 options and futures contracts grew at a faster rate than in 2005. Ibex 35 plus futures were responsible for the bulk of activity. Trading rose 30.1% and surpassed 6.5 million contracts. Open positions also increased, from 70,924 contracts in late 2005 to 81,503 at the end of 2006. Unlike in 2005 when it dwindled slightly, trading in Ibex 35 mini futures climbed by 39.5%. Ibex 35 options trading also stepped up in line with the trend in recent years, though this time growth was lower than in earlier years: 25.0% against the 2005 figure of 49.5%.

Trading on European financial derivatives markets¹

TABLE 5.2

Markets and issuers
Spanish derivatives markets

Thousands of contracts

Market	2003	2004	2005	2006	% Chg. 06/05
Eurex ²	1,014,932	1,064,731	1,248,748	1,421,113	13.8
Euronext ³	693,232	788,226	766,715	659,772	-13.9
Euronext.Liffe ⁴	335,826	386,959	416,689	461,701	10.8
Euronext Paris ⁵	277,882	318,513	232,334	81,025	-65.1
Euronext Amsterdam ⁶	79,524	82,755	117,692	117,046	-0.5
OM ⁷	76,611	99,642	113,705	129,095	13.5
MEFF	27,824	25,023	35,219	40,775	15.8
IDEM/MIF ⁸	17,732	18,273	25,871	29,411	13.7

Source: Eurex.

1. Trading volume is expressed in number of contracts. Differences in the underlying value of products traded on each market prevent direct comparisons between markets, but year-on-year comparisons are meaningful.
2. Deutsche Terminbörse (DTB) and Swiss Options & Futures Exchange.
3. This market comprises the Paris, Amsterdam and Brussels spot markets and the Lisbon and Porto and Liffe derivatives markets.
4. Formerly Liffe: London International Financial Futures Exchange.
5. Formerly MATIF and MONEP derivatives markets.
6. Dutch branch of Euronext.
7. Stockholm Options Market.
8. Italian Derivatives Market (Borsa Italiana) / Mercato Italiano Futures.

As in 2005, liquidity for MEFF equity products was given a boost by increasing activity by non-resident members. Further contributing to this was the bringing in of technical improvements in settlement procedures at expiry for individual stock futures and options so as to bring them into line with the usual practices on the other European derivatives markets. A new version of the S/MART platform also came into operation, which put settlement technical resources on a par with the most advanced in the world.

Another significant change in MEFF's operational environment was the phasing out of the dual and optional settlement system whereby there was a choice of settling business by netting or delivery, settlement becoming exclusively delivery-based.

Trading by MEFF members through EuroMEFF saw a gentle decline in 2006 as it confirmed the sharp drop felt in 2005. This broker-dealer provides access to trading in derivative products via German market Eurex and Euronext Paris. Even though total trading through EuroMEFF remained at levels very similar to the year before, stock index trading ballooned by 31.7%, while German debt future trading³ (Bund, Bobl and Schatz) tumbled by 22.4%.

3. Euro area long-term interest rate derivative transactions continued to be made mostly on Eurex, the market where trading in contracts of this kind has congregated since the practical disappearance of interest rate differentials in the euro area. In 2006 trading in long-term interest rate products in the euro area amounted to 730.4 million contracts on Eurex, 23.2 million on Euronext.Liffe and 4.3 million contracts on OM.

Trading in individual stock futures and options on MEFF RV

TABLE 5.3

No. of contracts	Options			Futures		
	2005	2006	% Chg. 06/05	2005	2006	% Chg. 06/05
	Abertis	29,194	35,250	20.7	—	—
Acerinox	512,243	585,155	14.2	—	—	—
Altadis	299,858	475,673	58.6	43,469	100,873	132.1
Amadeus	246,164	0	-100.0	—	—	—
B. Popular	129,481	271,694	109.8	224,189	634,835	183.2
Bankinter	38,795	40,148	3.5	—	—	—
BBVA	1,223,916	1,619,752	32.3	2,878,883	4,204,356	46.0
Endesa	659,662	911,146	38.1	1,134,530	987,558	-13.0
Gas Natural	72,050	79,579	10.4	31,131	80,113	157.3
Iberdrola	334,125	458,335	37.2	642,205	881,088	37.2
Inditex	95,130	83,819	-11.9	29,251	134,992	361.5
Indra	28,435	78,762	177.0	—	—	—
Repsol	1,437,359	1,398,275	-2.7	659,597	953,408	44.5
BSCH	3,001,512	2,419,980	-19.4	5,272,900	6,034,050	14.4
Sogecable	71,128	31,231	-56.1	—	—	—
Telefónica	2,375,286	3,766,212	58.6	7,765,074	7,177,083	-7.6
Tel. Móviles	89,352	42,585	-52.3	118,181	41,455	-64.9
Terra	3,306	0	-100.0	14,279	—	-100.0
TPI	42,833	23,137	-46.0	—	—	—
Unión Fenosa	225,398	105,246	-53.3	—	—	—
Total	10,915,227	12,425,979	13.8	18,813,689	21,229,811	12.8

Source: MEFF.

MEFF membership figures

TABLE 5.4

	2005	2006
MEFF renta variable (equities)	109	102
Custodian clearing members	38	31
Clearing members	34	29
Trading members	31	31
Trading members on own account	6	11
MEFF renta fija (fixed income)	54	55
Custodian clearing members	36	32
Clearing members	9	12
Trading members	9	11

Source: MEFF and CNMV.

5.1.1 New developments on the MEFF market

Besides the developments mentioned in the previous section, MEFF introduced one or two others in the course of 2006. Especially noteworthy here is the ex-

tension in the number of underlying assets for futures and options trading to all the shares quoted on the IBEX 35 plus PRISA. This took place on 22 January 2007.

By way of a parallel line of business, in May 2006 MEFF struck an agreement with Red Eléctrica Española (REE) whereby, as central counterparty delegated by REE, it would manage margins, collections and payments relating to the new settlement functions assigned to REE as operator of the electricity system. Such settlement functions are for the so-called electricity system adjustment services affecting producers, distributors, marketing organisations and other agents in the market for producing electricity.

Under this agreement with REE, MEFF decides the margins which each of the over 300 agents in the electricity market should deposit and handles any non-payments on their part. The economic value of such settlement operations is some 1.6 billion euros a year.

5.2 Warrants

5.2.1 Issues

In 2006 the primary warrants market grew at a pace unprecedented in recent years, both in terms of the amount for premiums and the number of issues. Compared to 2005 the amount of premiums on warrants issues registered with the CNMV increased by 179.6% to 5.14 billion euros and related mainly share warrants. The number of issues hit the highest level in recent years at 4,063, more than doubling the number of issues registered in 2005. The number of issues also rose, reaching eight⁴.

Warrant issues registered with the CNMV

TABLE 5.5

Thousand euros

	Number of		Amount ¹			
	Issuers	Issues	Total	Shares	Indexes	Others
2002	9	1,132	2,338,717	1,639,571	665,840	33,306
2003	7	1,051	1,327,166	753,984	488,956	84,226
2004	7	1,600	1,525,247	929,004	553,758	42,485
2005 ²	6	1,720	1,840,016	1,180,845	559,910	99,262
2006 ²	8	4,063	5,144,333	3,697,600	1,064,892	381,842

Source: CNMV.

1. Premium amount.

2. Includes issues not requiring a prospectus beforehand under the regulations on issue prospectuses.

4. The eight warrants issuers in 2006, along with the respective amounts they issued, bracketed in millions of euros were: Commerzbank (2,157), Société Générale Acceptance (1,645), Banco Santander Central Hispano (440), Bankinter (341), BBVA Banco de Financiación (229), Banesto Banco de Emisiones (166), BNP Paribas Arbitrage Issuance (116) and Caja de Ahorros y Pensiones de Barcelona (49).

5.2.2 Trading

The secondary market for warrants on underlying financial assets (see Section 5.4 on commodity warrants) expanded in 2006 at a livelier clip than in years of late. Total premiums traded on the warrants market swelled by 33.9%, a far higher percentage than the 16.7% rise of 2005. The number of warrants traded over the year shot up by 68.4%, almost five times growth seen in 2005. In the last few years these products have gone from strength to strength as they recovered from the sharp decline registered in 2002.

The increase in the volume of total warrants traded came about thanks to the intensification of trading in all groups of underlying assets: in equity, equity indexes and currencies, even though growth was headed up by the group of equity and, to a lesser extent, by the increase in the equity indexes group (see Table 5.6). The most traded share warrants were still those issued for Spanish companies with larger market capitalisations, though the proportion of these out of the total for equities traded shrank considerably⁵. Foreign share warrants edged upped their weight, coming to account for 10.7% of total share warrants, against the figure of 9.9% they represented in 2005. Once again prominent among these were those issued against the shares of companies relating to the telecommunications sector⁶. Trading concentration for stock index warrants rose for those issued against the Ibex 35⁷, these speaking for 63.0% of total index warrant trading in 2005, while in 2006 they represented 74.2%.

Trading in warrants on the electronic market¹

TABLE 5.6

Premiums traded in thousands of euros

	Equities				Exchange rate ²				Total	
	Indexes		Shares		Total		Total		Volume	No.
	Volume	No.	Volume	No.	Volume	No.	Volume	No.		
2002	406,276	360	817,222	1,483	1,223,498	1,843	8,853	42	1,232,351	1,885
2003	480,781	350	1,049,271	1,383	1,575,053	1,733	34,627	66	1,609,679	1,799
2004	550,716	473	1,236,832	1,612	1,787,549	2,085	37,919	98	1,825,468	2,183
2005	516,788	523	1,587,593	1,800	2,104,381	2,323	25,262	163	2,129,643	2,486
2006	727,429	744	2,099,102	3,246	2,826,531	3,990	25,817	196	2,852,348	4,186

Source: CNMV.

1. The No. refers to the number of issues which were traded in each period.

2. Includes fixed-income warrants in the years when there was trading in those products.

5. Repsol, BSCH, Telefónica, BBVA and Endesa warrants accounted for 47.7% of total equity warrant trading. In 2005 trading in warrants for these same companies represented 61.2%.

6. The most heavily traded foreign share warrants were, in order, those issued against Alcatel-Lucent, Nokia, Deutsche Telecom and France Telecom.

7. The value of premiums dealt in for the most heavily traded index warrants, i.e. Ibex 35, Nikkei and Eurostoxx 50 warrants represented 191%, 1.8% and 1.2% of the total for equities warrants.

5.3 Other financial contracts

Registration of options buy/sell contracts (formerly known as “contratos financieros atípicos”) with the CNMV rose in 2006 following three years of declines. As Table 5.7 shows, the nominal value issued was 206.8 million euros, verging on the like figure for 2004. As in 2005, four issuers⁸ registered contracts of this type with the CNMV, compared with eight in 2003 and 2004. It is important to note the sizeable slide in index-related contracts, whose nominal figure issued dropped to 600,000 euros.

Issues of buy/sell option contracts registered with the CNMV

TABLE 5.7

Thousand euros

	No. of		Amount ¹			
	Issuers	Issues	Total	Shares	Indexes	Others
2002	13	34	1,478,447	1,388,449	0	89,998
2003	8	41	500,838	474,511	26,327	—
2004	8	31	247,717	195,305	48,662	3,750
2005	4	13	112,200	87,800	16,400	8,000
2006	4	12	206,840	196,240	600	10,000

Source: CNMV.

1. Nominal contract amount.

5.4 Commodities derivatives markets

Mercado de Futuros sobre Aceite de Oliva (MFAO)⁹, the olive oil futures market, grew strongly in 2006. 50,628 olive oil futures contracts were traded¹⁰ representing an increase of 58.1%. Open positions moved from 7,625 contracts in late 2005 to 9,375 by the end of 2006.

Over the year the MFAO gained in liquidity. Besides the number of contracts traded, there was also an increase in the number of participants, this rising from 166 from the pre-existing figure of 117 at the end of 2005. Furthermore a new industrial member, Hojiblanca S.C.A, joined the already existing one Sos Cuétara S.A.

8. The four issuers of such financial contracts in 2006, along with the respective amounts they issued, bracketed in millions of euros were: Banco Español de Crédito (86.2), Banco Guipuzcoano (80.0), Banco Popular Español (30.0) and Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (10.6). It should be borne in mind that although the number of issuers is the same as in 2005, only two of them, the Banco Guipuzcoano and the Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián issued this type of security.

9. The Mercado de Futuros sobre Aceite de Oliva (MFAO) opened for trading on 6 February 2004. It is the second commodities derivatives market to be authorised in Spain, the first being the FC&M (mercado de Futuros sobre Cítricos y Mercaderías) and it is the world's first olive oil derivatives market.

10. Each olive oil futures contract is for one ton.

MFAO membership figures			TABLE 5.8
	2005	2006	
Custodian clearing members	5	5	
Clearing members	7	7	
Trading members	2	2	
Industrial members	1	2	
Total	15	16	

Source: MFAO.

On the other hand there was a sharp increase in commodities warrants trading for the special electronic market segment set aside for such instruments. The trend of soaring oil prices over a large part of the year boosted Brent oil warrants trading. Premiums traded roared ahead from 9.8 million euros to 34.3. Premiums on gold warrants against the ounce also raced ahead from 2.8 million euros to 18.2 in 2006, spurred on by the gold price rise in the first half of the year and its conspicuous drop in the second part. One new development worth mentioning was the commencement of trading in warrants against the price of an ounce of silver, where turnover over the year was 2.4 million euros.

III Financial institutions and investment services

6 Collective investment

The performance of collective investment schemes (IIC) in 2006 was not as satisfactory as in previous years. There has been major switch in savings towards bank deposits as a result of interest rate rises, a change in the tax treatment of savings and a transformation in the strategy of credit entities as they have found themselves in need of funds to meet the demand for mortgage credit. This fact, together with the rising demand for foreign funds have been the key-notes for the past year.

The main new developments in 2006 have been: The new income tax (IRPF) law¹ which affects the tax treatment of savings and therefore mutual funds, the flotations of the first listed funds or ETFs (*Exchange Traded Funds*), the registration of the first hedge funds² controlled in Spain by the IIC regulations³ and Circular 1/2006⁴ for the first time and the new prospectus circular⁵ which improves the information which has to be provided to unit holders.

With respect to the new tax regime applying to mutual funds, as from 1 January 2007 all income categorised under the law as coming from savings will be taxed at a single rate of 18% regardless of the period over which it is generated⁶. This means that the distinction is removed which set taxation at the marginal rate if capital gains were generated inside a year and at a fixed rate if the period involved was greater. There is also a change to the percentage of tax withheld on profits obtained, which rises from 15% to 18%.

One important aspect of this reform is that it maintains the regime of transfer deferral, i.e. tax is not imposed on profits made through switching fund insofar as the redemption of units is not effected. This advantage holds for funds domiciled in other EU countries and registered with the CNMV, with certain requirements. This deferral regime does not apply to listed mutual funds (ETFs).

1. Law 35/2006 of 28 November on the Impuesto sobre la Renta de las Personas Físicas (income tax) and partially modifying tax law pertaining to corporations, non-resident income and wealth.

2. Nota del traductor: la denominación de los hedge funds en España es "Instituciones de Inversión Colectiva de Inversión Libre".

3. Regulations implementing Law 35/2003 of 4 November regarding Collective Investment Schemes (IICs) passed by Royal Decree 1309/2005 of 4 November.

4. CNMV Circular 1/2006 of 3 May on Instituciones de Inversión Colectiva de Inversión Libre (Hedge Funds).

5. CNMV Circular 3/2006 of 26 October on IIC explanatory prospectuses.

6. See section 3 of chapter 1.

The other three new developments referred to, the ETFs, hedge funds and the new circular on prospectuses, will be examined further on. The aspects relating to supervision of IICs are explained in chapter 11.

6.1. Mutual funds

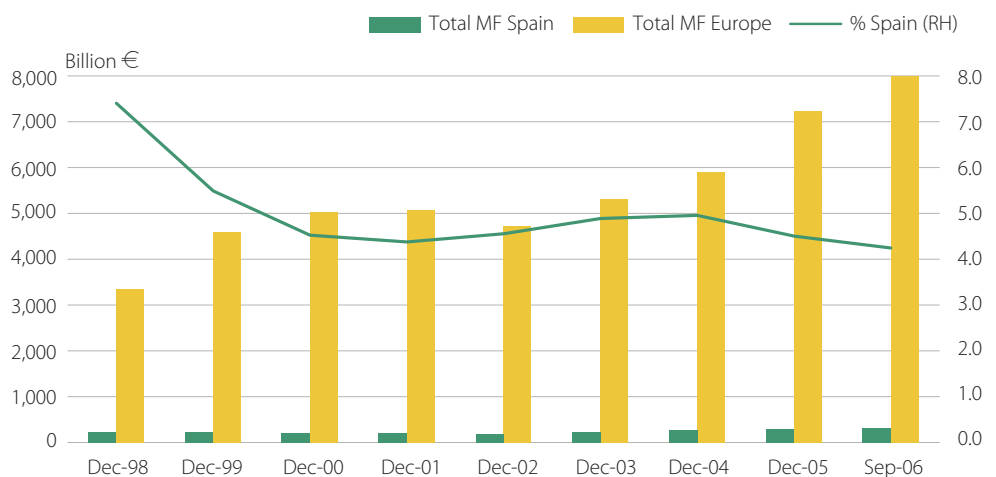
Collective investment growth eased in 2006. Mutual fund assets rose 3.1% for the year as a whole, a figure which is patently lower than those of 11%-12% from 2004 and 2005. It should be noted that there were more redemptions than subscriptions and so the rise in assets came solely from returns (see Annex II.1). In 2005 the increase in assets due to net subscriptions was 6% and net returns contributed the remaining 5%.

Such low asset growth came despite the high yields on equity funds. The chief cause was the transfer of conservative savings into bank deposits. The tax reform referred to fed accelerated redemptions in the latter half of the year to make the most of better tax treatment of capital gains. It should also be mentioned that less risk-averse investors are increasingly opting for funds offered by large international managers having wider-ranging offers of high and very high risk funds which other, smaller domestic management companies cannot offer.

Assets of mutual funds under management represented 28% of GDP compared to 30% in 2005. The IICs collectively accounted for around 12.6% of total household financial assets on 30 September 2006 compared to 13% in 2005⁷.

Mutual fund assets in Spain and Europe

FIGURE 6.1



Source: CNMV

On the European arena, Spanish mutual funds are seventh-ranked by asset volume with 4% of total assets under management⁸ (see Figure 6.1). In 2005 they were

7. See Annex I.2 and Chapter 1.3. Financial decisions by economic agents

8. Source: EFAMA (*European Fund and Asset Management Association*). Figures to September 2006.

ranked sixth, with a 5% share of the total. Topping the ranking is Luxembourg, with 24%, followed by France (20%), Germany (14%), the United Kingdom (10%), Ireland (9%) and Italy (5%).

6.1.1. Assets and yields

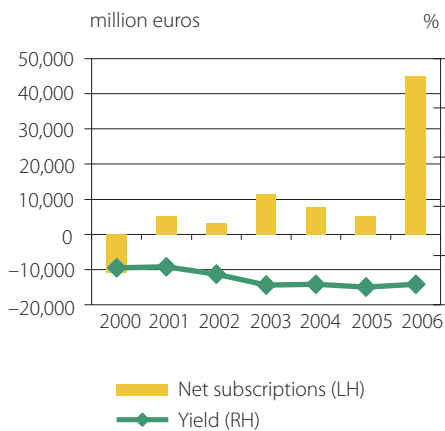
The distribution of investments in the various types of funds in 2006 kept up the conservative leaning observed in previous years.

Short term fixed-income funds accounted for a large slice of net subscriptions for securities investment funds (FIMs) as a result of the disappearance of money market investment funds (FIAMMs) (see section 6.1.2). Yields on these funds were still low despite their recovery. Global funds also accounted for a major percentage of net subscriptions even though their yields were still at a low ebb (see Figure 6.2).

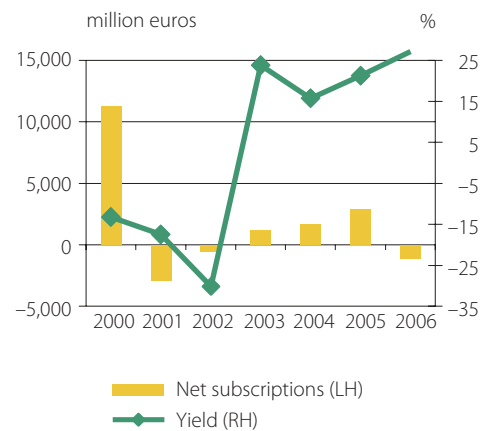
Net subscriptions and returns for security investment funds

FIGURE 6.2

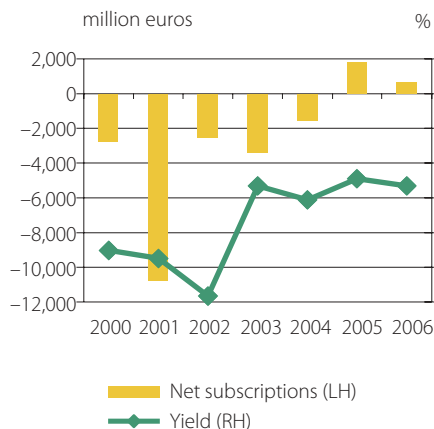
Fixed income



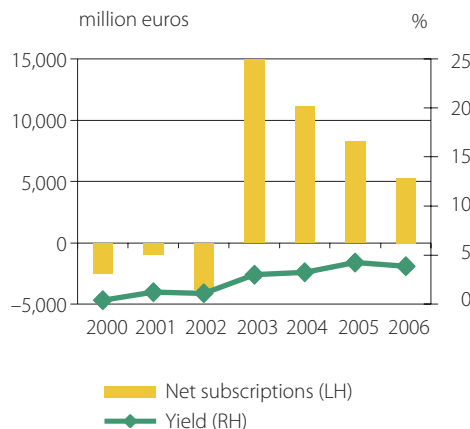
Equities



Mixed



Guaranteed



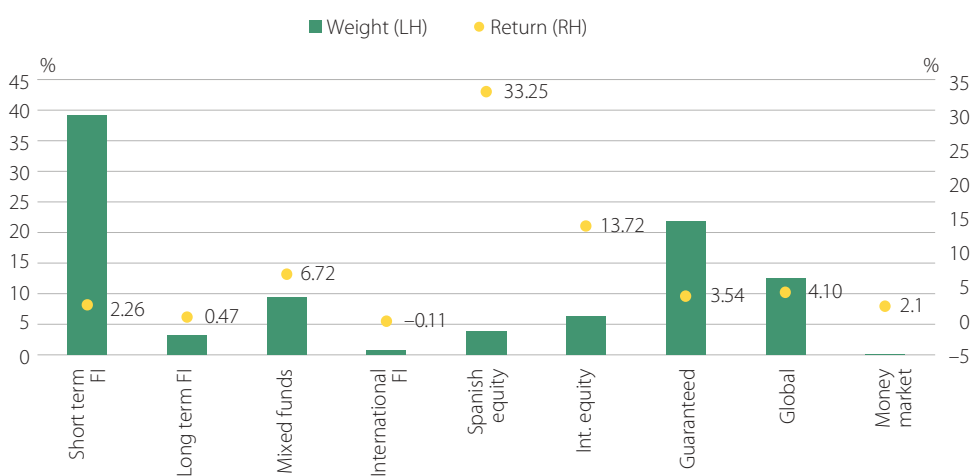
On the other hand, despite the appealing yields for equity funds in Spain and internationally, net subscriptions for such funds were negative. Their asset growth may be explained by the substantial net portfolio returns. Mixed funds were in a situation somewhere in the middle: net subscriptions were positive but low and returns higher than for short term fixed-income and guaranteed funds.

Figure 6.3 shows the distribution of fund assets at the end of 2006 and the accumulated return to date. It is clearly noticeable that the categories where the greatest assets are concentrated (short-term fixed income, guaranteed and global funds) offered low or negative real returns. On the other hand, equity funds with very much higher returns account for a low share of security investment fund assets.

Annex II.5 charts the historic performance of net returns and subscriptions for the different categories of mutual funds.

Distribution¹ and returns for securities investment funds

FIGURE 6.3



Source: CNMV.

1. Weight of assets for each category out of total assets for securities investment funds at 31 December 2006.

Real estate investment funds (FIIs)

The asset growth in the real estate IICs continued to be very significant in 2006, 35.3% for the year as a whole, although this slowed down in comparison with the rate of 50% registered in 2004 and 2005. The lion's share of this increase (79%) was due to net subscriptions, with the remaining 21% coming from net portfolio returns. The aggregate annual yield for FIIs reached 5.98% in 2006, a little higher than the figure obtained in 2005 (5.35%). Annex II.5 shows how yields have performed since 2001.

Despite such powerful growth, the assets of real estate IICs remained very low relative to securities IICs, as at year-end 2006 their assets amounted to 9 billion euros or 2.9% of the total for IICs.

Net subscriptions were positive for all funds. The bulk of assets continued to be concentrated in two of these, namely Santander Banif Inmobiliario and BBVA

Propiedad, which by the end of 2006 accounted for over 74% of the total. Worth noting was the gain in weight for funds Sabadell BS Inmobiliario and AC Patrimonio Inmobiliario.

6.1.2. Investors and schemes

The number of unit holders in Spanish mutual funds reached 8.6 million in 2006, 2.2% up on the year before (see Annex II.1). It is still the fixed-income and guaranteed equity funds which draw in the largest numbers of investors. In spite of this, there have been significant increases in holders in US international equity funds, global funds and emerging market international equity funds. Average assets held per investor in the funds industry as a whole were 31,000 euros. 97% of investors in funds were individuals, who altogether owned 74% of assets.

The number of financial funds registered with the CNMV in 2006 was 2,853 and their average assets were under 95 million euros, which is a long way short of those estimated for the main European countries⁹.

The new IIC regulation¹⁰, unlike the previous one¹¹, only considers one kind of fund which might be of a financial or non-financial kind. Thus, under the Regulations of

Registrations and removals in 2006

TABLE 6.1

Type of schemes	Schemes registered at 31/12/05	Registrations	Removals	Schemes registered at 31/12/06
Total financial CISS¹	5,841	506	342	6,010
Mutual funds	2,723	378	248	2,853
Investment companies	3,118	126	94	3,150
Funds of hedge funds	0	2	0	2
Hedge funds	0	5	0	5
Total Real Estate CISS	13	4	0	17
Real estate investment funds	7	2	0	9
Real estate inv. companies	6	2	0	8
Total foreign CISS marketed in Spain	260	92	12	340
Foreign funds	115	52	4	163
Foreign companies	145	40	8	177
SGIICs	112	4	2	114
Custodians	135	0	3	132

Source: CNMV

1. Neither hedge funds nor funds of hedge funds are included in references to mutual funds.

9. According to estimates in the EFAMA (2006) *Fact Book*, the average size of European investment funds is around 157 million euros, a figure still some way off that for US funds.

10. Law 35/2003 of 4 November and Royal Decree 1309/2005 of 4 November implementing the Regulations of Law 35/2003.

11. Law 46/1984 of 26 December and Royal Decree 1393/1990 of 2 November implementing the Regulations of Law 46/1984.

Law 35/2003, FIAMMs have one year to adapt to this, for which reason most of them have turned themselves into securities investment funds (FIMs). In Table 6.1 they feature as included under mutual funds of a financial kind.

Two new categories of financial IICs have likewise also been regulated: Hedge funds (IIC de inversión libre), and the corresponding funds of hedge funds, and listed funds (ETF).

Listed funds are regulated under article 49 of the regulations. Their units are listed on securities markets and their investment objective is to replicate a stock or fixed income index which meets the conditions laid down under article 38.2.d of the regulations¹². In Spain three Spanish ETFs are listed and two foreign ones.

The assets of the three Spanish ETFs amount to 364 million euros. By year-end 2006 some 291 ETFs were listed in Europe compared to 159 at the end of 2005. Assets also grew by 54% during the year, reaching 71.71 billion euros. The Euro Stoxx 50 is the index most commonly used by the European ETFs.

Hedge funds

The Regulations of Law 35/2003 provided a framework for the first time in Spain for hedge funds (IIC de inversión libre, also known as “fondos de gestión alternativa”)¹³. CNMV Circular 1/2006 goes into greater detail on implementation of the regime applying to such institutions, although in early 2007 the regulations were modified in relation to the system of subscriptions and redemptions, as well as other technical issues¹⁴.

At the latter end of 2006 five hedge funds and two funds of hedge funds had registered with the CNMV, their main features being:

- Hedge funds: out of the five, three of them employ a long-short strategy, one specialises in currency arbitrage, and the last one specialised in investing in unlisted securities issued by microfinance houses.
- Funds of hedge funds: both of them pursue an identical, multi-strategy global investment policy, meaning they diversify their portfolios by investing in funds which run different alternative management strategies such as arbitrage in fixed-income, convertibles, global macro and long-short among others.

Further development of the Spanish hedge fund industry is however yet to come and will be spawned by amendment of the regulations mentioned above as it means it is possible to establish longer periods for giving notice and paying redemptions than those which currently exist for ordinary funds, which pundits point to as vital for the concept to develop to its full potential.

12. See chapter 2, section 2.6.

13. See chapter 11.3 on the characteristics and regulation of these IICs.

14. Royal Decree 362/2007 of 16 March amending the Regulations implementing Law 35/2003 passed by Royal Decree 1309/2005.

Risks from hedge fund activity to financial stability and markets.

Supervisors are at present generally concerned about the risks associated with hedge fund activity due to their relative lack of regulation compared to traditional investment, as well as the knock-on effect of such risks to other markets, the companies they invest in or those which they provide with funding, especially banks and brokers for whom they represent an increasingly important source of business. One of the main trademark features of hedge funds is their capacity to leverage up to a limit of five times their asset value.

G7 has included “hedge fund transparency” among its principal topics for discussion in the first half of 2007. The Financial Stability Forum is to present an updated version of the report compiled in 2000 on the hedge fund industry at the International Monetary Fund meeting scheduled for April 2007 at the request of G7.

The chief identifiable risks attaching to how hedge funds operate are these:

Systemic risk: Systemic risk arises from the combination of leveraging, the correlation of strategies employed and trading activity. It has been stated that hedge funds have similar financial structures to investment and commercial banks, with a low ROA and high borrowing and ROE levels. Investors in hedge funds expect high returns. Bearing in mind that transaction costs are higher than for any other type of fund, almost the only viable way of achieving a high return is by leveraging up. Hedge funds leverage up through loans of both money and securities, repos and derivatives.

At least 70% of hedge funds make leveraged investments on a risk differential between two assets (long/short strategy) and tend to coincide in terms of the gamble they take on such a differential. Investment banks use similar investment strategies and this exacerbates the risk of concentration (crowding of trades).

On the other hand the significance of hedge fund activity in determining asset prices is great, as they are involved in a sizeable percentage of trading done on the major markets.

Another potential source of systemic risk derives from the possibility of the hedge funds being forced to undo their positions en masse (they are big writers of puts which are a long way out of the money). These puts have a very slim chance of being exercised, although this sometimes happens, as in the case of the fund LTCM in 1998.

It should be stated that since the failure of LTCM, none other has occurred with such a great systemic impact. Nonetheless, the chances of such institutions running into losses are not to be underestimated, as is evidenced by the high number of hedge funds which went under in the United States in 2006 (see Chapter 1).

Problems of governance for companies: The presence of a hedge fund on a company's shareholder list, whether this be driven by long-term, speculative or hedging-related motives, can have an impact on its stability due to its ability to have a considerable influence on management or incur in conflicts of interest with the company's other shareholders.

Market abuse: Some funds operate on the borderline of acceptable practice when it comes to using insider information or price-rigging. This type of risk is currently arousing debate in the United States, where there are proposals to set up an international early-warning system for regulators to alert each other to suspicious transactions.

It has often been a contention that hedge fund investors are usually individuals or companies with expert knowledge of markets and that for this very reason they do not need the same level of protection as other investors. However the risks examined and the fact that retail investors can also access this type of investment through funds of hedge funds has prompted supervisors to ask themselves whether or not regulation of this sector should be tackled. Generally speaking, the solutions put forward to date tend to indicate the need to increase the information provided for investors, counterparties and authorities.

6.1.3. Investment policy and significant holdings by mutual funds in listed companies

In 2006 securities funds raised their proportional exposure to Spanish assets with respect to 2005. 49% is invested abroad, mainly in euros, and an increasingly important feature of the Spanish portfolio compared to 2005 has been private fixed-income securities (19%), followed by shares and units and temporary asset purchases (both at 11.5%) (see Annex II.4).

Significant holdings of IIC management companies

TABLE 6.2

Management Company	Number of securities on the electronic market	Range of holdings ¹ (%)	
		Maximum	Minimum
Bestinver Gestión	16	9.2	1.1
Santander Gestión	14	4.3	1.1
Bansabadell Inversión	8	3.2	1.1
Barclays Fondos	5	1.7	1.0
Ibercaja Gestión	4	5.1	1.2
Sogeval	2	1.3	1.2
Bankinter Gestión de activos	1	1.3	1.3
Gescooperativo	1	2.1	2.1
Gestora Bancaja	1	1.9	1.9
Metagestión	1	1.1	1.1
Mutuactivos	1	1.6	1.6

Source: CNMV

1. Maximum and minimum holdings of funds managed by management companies in the share capital of electronic market companies.

At year-end 2006 eleven IIC management companies had funds under management whose combined investment in Spanish-issued securities exceeded 1% of the share capital of the investee company. Two of these (Bestinver Gestion and Santander Gestion) are particularly noteworthy because of both the number of securities in the electronic market in which they had significant holdings and the volume of the holdings (see Table 6.2). At year-end there were 25 companies in which the mutual funds held significant investments. Of these, only one was an Ibex 35 company (Corporación Mapfre) and therefore the bulk of significant holdings was in medium and small capitalisation companies. For four companies¹⁵ the aggregate holdings of the mutual funds together topped 10% of total share capital.

6.1.4. Fees

For financial mutual funds management fees dropped from 1.07% of average daily assets in 2005 to 1.03% in 2006 (see Annex II.3). In 2006 there was a notable rise in management companies which charged a performance-based management fee instead of one based on a percentage of assets. There are 297 securities funds where a mixed fee is paid, meaning that part of the fee is worked out according to assets and another part is performance-based, and only four funds have fees which are entirely performance-based. Most of these are global funds. At year-end 2005 there were 244 funds which applied a mixed fee and four were purely performance-related.

Custodian fees dropped in proportionate terms in 2006 from 0.10% to 0.09% of average daily assets.

Over the 2000-2005 period there was a noticeable reduction in management fees charged by Spanish management companies, especially for funds investing in fixed income¹⁶. Custodial fees on the other hand have remained stable. This fall was mainly due to the legal reduction affecting fees in 2000, the macroeconomic context of low interest rates and the scant competition in the sector.

On this last point, according to 2005 figures the ten biggest collective investment scheme managers (out of a total of 101) accounted for 75% of total mutual fund assets, which is a percentage that has barely changed since the year 2000. Two institutions actually spoke for 45% of mutual fund assets, namely BSCH and BBVA. The fact is that these two management companies scarcely feel the force of competition, as the reduction in their management fees over the 2000-2005 period was less than that for the other management companies.

Among elements which could have curtailed the fall in Spanish mutual fund fees and which could be thwarting the rise in the relative standing of the more competitive financial institutions is Spanish banking tradition and the influence on investors of the reputation of institutions, besides shortcomings in the dissemination of information.

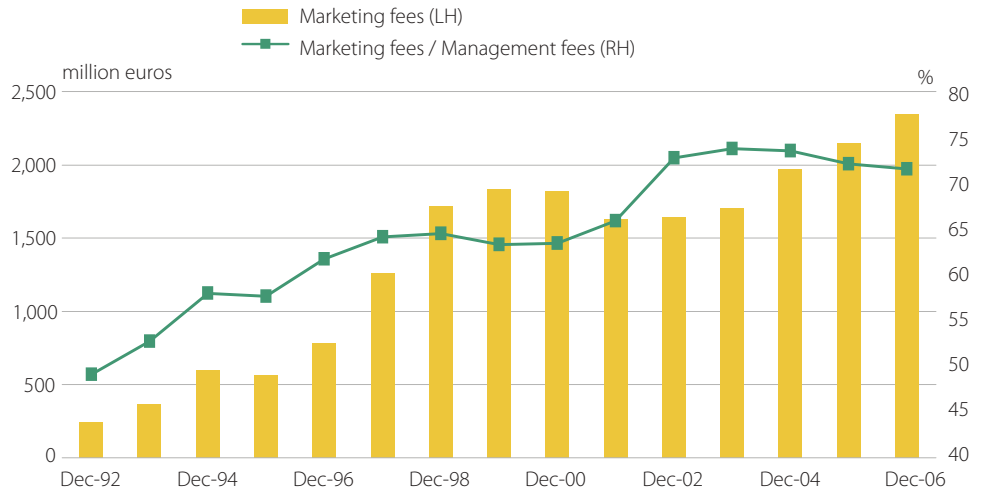
15. Viscofán, AC. Miquel Costas y Miquel, Tubacex and Construcciones Auxiliares de Ferrocarriles, S.A.

16. See monografía nº 21 published by the CNMV: "Estudio sobre la evolución y los determinantes de las comisiones de gestión y depósito de los fondos de inversión", *María Isabel Cambón Murcia*.

On the other hand, fund distribution costs have a very significant weight in management fees. The fact that the new fund Regulations allow management companies to market their funds directly has not led to a drop in fees, as they are still mainly sold through the sales networks of the group's banks. Figure 6.4 shows the steady rise in marketing fees and their share out of total management fees.

Fund marketing fees for SGIICs (IIC management companies)

FIGURE 6.4



Source: CNMV

Management and custodian fees are the most important items in an IIC's income statement. Nonetheless, the information required by the investor to choose the fund best suited to their risk profile goes beyond this. In this sense the Regulations implementing Law 35/2003 under article 22 and Circular 3/2006¹⁷ refer to certain new developments which IIC prospectuses should contain.

The European Commission in 2004 declared itself in favour of funds including information in the simplified prospectus on operating expenses (the TER: *Total Expense Ratio*) and the portfolio's turnover rate, and issued a recommendation regarding certain contents within this prospectus¹⁸ describing such indicators and how they are calculated.

The total expense ratio under Spanish regulations

Operating expenses or the Total Expense Ratio (TER) represent the influence on a fund's returns of the expenses it incurs bearing in mind not only management and custodial costs but also other expenses such as derive from auditing, administration, distribution, etc. The TER is thus the annual reduction in the percentage of returns to the investor due to fixed operating

17. CNMV Circular 3/2006 of 26 October on explanatory prospectuses issued by Collective Investment Schemes (IICs).

18. Commission recommendation 2004/384/EC of 27 April 2004.

expenses if markets remain level and the fund holds its portfolio without trading for a period. The TER thus does not include dealing costs as these are counted as part of the acquisition price for an asset and not an expense. The EC thus recommends that they are presented separately. Information must in any case be provided as to portfolio turnover so as to have an idea of the cost of active management.

The CNMV Circular on IIC prospectuses explains the informative requirements under article 22 of the IIC Regulations. This means that both the simplified and the full prospectuses must provide information on total expenses and the portfolio turnover rate, as well as historic information on returns. This information is to tally at all times with the contents of the latest half-yearly report.

A further recommendation by the EC is the disclosure of a benchmark security irrespective of whether the investment objective is explicitly established or not in relation to this security. Member states are further advised to require a quantitative risk indicator based on the volatility of the fund, though this is subject to future work on convergence for such risk indicators. Pursuant to the Regulations, the CNMV Circular mentioned requires that a benchmark index is included, should such exist, in the section of the prospectus dealing with investment policy, as well as an assessment of the risk profile and the type of investor which the IIC targets.

In short, an increasing amount of information is required so that the investor can arrive at a proper decision regarding the fund in which to invest. Such information and its use is summarised in the following points: comparison of the return on a fund with a benchmark index allows management quality to be assessed. By the same token the portfolio turnover rate provides information about the results of active management and the ability of managers to outperform markets. The TER is an indicator of the extent to which operating costs diminish the fund's profitability. A risk indicator makes it possible to tailor the investment to each investor profile.

Studies on fees charged by mutual funds worldwide confirm that the TER borne by Spanish investor funds is in excess of that for both US and European funds (except for Italy).

6.2. Investment companies

By the end of 2006 the number of SICAVs (open-end securities investment companies) was 3,150.³² more than the year before. Bearing in mind that of the new SICAVs, 46 were transformed SIMs¹⁹, in 2006 there were more withdrawals than registrations regarding the SICAV register.

19. Close-end securities investment companies

Assets managed by investment companies were over 30 billion euros (around 3% of Spanish GDP), which is an increase of more than 9% on 2005 (see Table 6.3). From the year 2000 to now the number of SICAVs has doubled and exhibits sustained growth every year, both in assets and in numbers of companies. 2006 may be considered an exception in the light of the decline in investor numbers (-2%) and the more modest rise in assets (9.2%).

Average assets per unit holder in SICAVs was over 73,000 euros by the end of 2006 and average assets per SICAV reached 9.5 million euros. Compared to funds (31,000 euros per holder on average and 96 million euros of average assets), assets under management with such companies only represented 11% of those of the former and investors in them do not even account for 5% of those who invest in funds.

By the end of 2006 not a single SIM was still registered (see Table 6.1), as the new IIC Regulation²⁰ only provided for two kinds of companies; financial ones and non-financial ones. Thus it was that of all the existing SIMs, 46 turned themselves into SICAVs, one went into liquidation and another one became an S.A. (public company).

For the sake of comparison, the year 2005 in Table 6.3 includes the SIMs which were registered at the end of that year. At that date assets in SIMs amounted to 858 million euros, of which 808 million were in SIMs which became SICAVs. The assets of these 46 SIMs which were transformed at the end of 2006 came to 958 million euros.

Detail of investment company assets			TABLE 6.3
Thousand euros	2005	2006	% Chg.
Cash	728,697	802,209	10.1
Portfolio investment	26,885,114	29,294,103	9.0
Spanish securities	13,851,528	15,553,811	12.3
Shares	5,906,624	6,727,296	13.9
Mutual fund units	941,317	1,095,026	16.3
Public money market assets	128,214	463,412	261.4
Other public fixed-income	896,881	678,176	-24.4
Private money market assets	359,118	555,449	54.7
Other private fixed-income	397,279	554,840	39.7
Spanish warrants and options	15,563	19,740	26.8
Repos	5,206,239	5,459,108	4.9
Unlisted securities	293	764	160.8
Foreign securities	13,033,586	13,740,292	5.4
Euros	9,178,471	9,847,688	7.3
Other	3,855,085	3,892,604	1.0
Net balance (accts. receivable-accts. payable)	-4,035	56,412	1,498.1
Assets	27,609,746	30,152,724	9.2
Pro-memoria: No. of holders	418,920	410,403	-2.0

Source: CNMV

20. Law 35/2003 of 4 November and Royal Decree 1309/2005 of 4 November implementing the Regulations of Law 35/2003.

Most SICAVs started to list on MAB (the Alternative Stock Market) from June, when this market began operations. To be precise, 2,405 SICAVs are listed on MAB against 746 which are still traded by open outcry and one which is listed on the electronic market²¹.

6.3. Foreign IICs marketed in Spain

Foreign IICs continued to increase in 2006, though not at such a quick pace as in the two previous years. These IICs tend to have a fuller range of funds for investors requiring high or very high risk levels which in many cases are allowing them to achieve substantial returns. As can be seen in Table 6.4, the marketing of them has been essentially handled through the big two Spanish banks (BSCH and BBVA) and two large European banks (BNP and Deutsche Bank). These four banks together account for over half of total foreign IICs marketed in Spain.

Annex II.5 features the net amount of foreign IICs marketed by Spanish companies and foreign resident ones. Compared to net subscriptions for Spanish funds in 2006, those for foreign IICs have outstripped the Spanish ones by some 11 million euros²².

The top 10 marketing companies for foreign IICs in Spain*

TABLE 6.4

Million euros

Marketing company	Financial group	Investment volume		
		Amount	% chg.	% share
All Funds Bank	SCH	8,766	26.3	19.9
BBVA	BBVA	4,271	56.5	9.7
BNP Paribas España	Banque Nationale de Paris	3,434	19.3	7.8
Banco Banif	SCH	3,294	44.3	7.5
Deutsche Bank	Deutsche Bank	2,621	18.6	5.9
Morgan Stanley	Morgan Stanley Dean Witter	1,712	24.4	3.9
UBS España	UBS	1,709	22.6	3.9
Popular Banca Privada	Banco Popular	1,645	43.1	3.7
Credit Suisse	Credit Suisse	1,396	21.3	3.2
Banco Español de Crédito	SCH	1,215	30.4	2.8
Subtotal for the top 10		30,063		68
Total marketed		44,049	31.2	100.0

Source: CNMV.

Assets rose by 31% in 2006 to 44 billion euros. The number of investors soared by 39% to 779,000. There was also a notable increase in the number of foreign IICs marketed, from 260 in 2005 to 312 at year-end 2006.

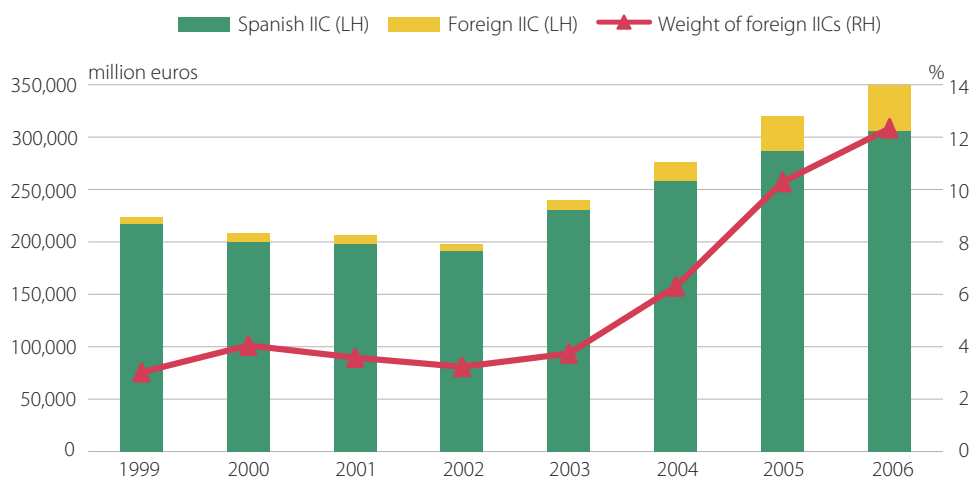
21. For further details see Chapter 2, Table 2.5.

22. In 2006 the net value marketed in Spain of foreign IICs was positive (6.435 billion euros), unlike what happened with net subscriptions for Spanish mutual funds. See Annex II.5.

The significant expansion in foreign IICs marketed in Spain since 2003 has pushed up their share to substantial levels now, their weight reaching 12.5% of total securities IICs marketed in Spain in 2006 (see Figure 6.5).

Assets and weight of foreign IICs marketed in Spain

FIGURE 6.5



Source: CNMV

6.4. IIC management companies (SGIICs)

At 2006 year-end there were 114 registered SGIICs, following the addition of four²³ and the removal of two²⁴.

Regarding requests to authorise and extend the programme of SGIIC activities to managing hedge funds and/or funds of hedge funds, by late 2006 some 11 authorisation requests had been received from new SGIICs specialising in hedge fund management and 26 requests to widen the range of permitted activities for SGIICs already registered, i.e. companies authorised to manage ordinary IICs seeking further authorisation to manage this type of IIC. By the end of the year six new SGIICs and 11 extensions of permitted activities had been authorised. To summarise, 17 management companies had been authorised to handle hedge funds, which was 15% of total SGIICs at 31 December 2006. Should all requests be authorised, it is likely that over one third of SGIICs will be allowed to manage hedge funds.

Besides representing a huge effort for the CNMV in assigning resources to deal with it, the scramble in terms of time for such authorisation has meant having to make very clear to those seeking it what the most important points about it entail. To this end the CNMV has paid, and will continue to pay, particular attention to two aspects: human resources and control systems.

23. See Annex II.6.

24. The SGIICs leaving the register were Sogecapital (from the Société Générale group) and independent company Hermes Gestión.

As to human resources, the CNMV's dealings with and consultation of professionals in this market have brought home the extraordinary importance of training and practical experience for managers in the industry, which is not really one of so many management companies but rather one of managers. The number of managers available in Spain is low however, at this the first stage in the industry's development, for which reason it is not uncommon to subcontract firms, almost all of them foreign, to provide the more highly specialised services.

With respect to the profiles of the authorised companies, it is striking that most of the projects by new firms have been pushed ahead by the professionals themselves, who are managers with great experience in this market, almost always gained outside Spain. As has been pointed out, this is a subsector where it is the independent managers who predominate. The situation is markedly different for the companies which are widening their range of activities, where it is the large financial groups which prevail that already have this type of business outside Spain and move them here, and others which, given the new regulations, set up new business areas.

6.4.1. Assets and earnings

The SGIICs manage all the mutual funds and 97% of companies registered. Average assets under management per firm rose considerably (from 2.6 billion euros each in 2005 to 2.9 billion in 2006) due to the rise in IIC portfolio values (see Table 6.5).

SGIICs. Number of companies and assets managed or advised on

TABLE 6.5

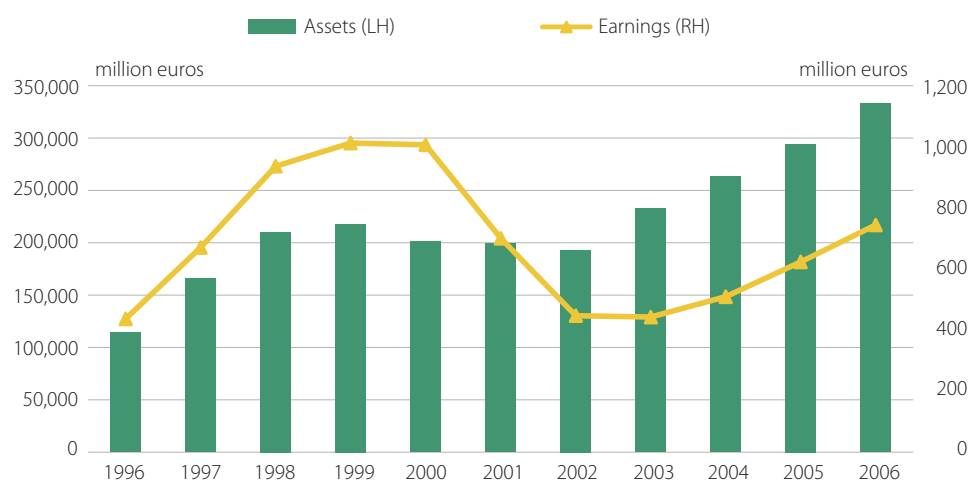
Thousand euros			
	31/12/2005	31/12/2006	% Chg.
Number of companies	112	114	1.79
Number of portfolios	5,725	5,932	3.62
Assets	287,278,698	332,871,930	15.87
Distribution per portfolio type			
Mutual funds			
Number	2,723	2,853	4.77
Assets	262,197,627	270,406,307	3.13
Funds of hedge funds			
Number	—	2	100.00
Assets	—	599	100.00
Hedge funds			
Number	—	5	100.00
Assets	—	24,420,257	100.00
Investment companies			
Number	2,989	3,049	2.01
Assets	25,485,884	28,992,727	12.10
Real estate IICs			
Number	13	17	30.77
Assets	6,690,761	9,052,040	35.29

Source: CNMV

SGIICs continued to lift their earnings in 2006. The recovery in income before taxes since 2003 has been considerable, but these are still a long way short of the historic high in the 1998-2000 period, as can be appreciated from Figure 6.6.

SGIICs: assets managed and earnings

FIGURE 6.6



Source: CNMV

Net fees received went on rising over 2006 at the same pace as in 2005, although management fees grew more sluggishly. The rise in total net revenues was still significant but the growth rate for operating expenses doubled. As a result of this income before taxes rose by rather less than in 2005.

SGIICs: income statement

TABLE 6.6

Thousand euros			
	2005	2006	% Chg.
Financial income	29,633	42,673	44.0
Net income from securities	7,847	9,355	19.2
Net commission revenues	897,419	1,040,344	15.9
Commission revenues	3,045,152	3,387,723	11.2
IIC management	2,976,233	3,280,953	10.2
IIC subscription and redemption	60,109	75,853	26.2
Other	8,810	30,917	250.9
Commission expenses	2,147,733	2,347,379	9.3
Total net revenues	934,899	1,092,372	16.8
Operating expenses	286,779	335,388	16.9
Operating income	648,120	756,984	16.8
Amortisation and other allowances	14,593	16,934	16.0
Other gains and losses	-10,748	3,911	-136.4
Income before taxes	622,779	743,961	19.5
Corporation tax	215,279	255,384	18.6
Income after taxes	407,500	488,577	19.9

Source: CNMV

The leading ten management companies by assets managed amassed 66.7% of the sector total at year-end as well as 60.3% of total income before taxes²⁵. The top two management companies (Santander Gestión de Activos and BBVA Gestión) achieved 31.5% of total income before taxes with 35.9% of assets under management.

6.4.2. Return On Equity

Return on Equity (ROE) for the management companies was 69% in 2006. Despite this positive aggregate figure, there are a great deal of companies whose returns have been low or negative for the last five years²⁶. The number of loss-makers declined slightly, moving from 16 to 12, and the share of assets managed by these dipped from 1.67% to 1.02%. Be this as it may, it should be noted that trends in the current expansive phase of the economic cycle since 2002 are positive: the number of loss-making companies in 2002 was 25.6% of the total, while at the end of 2006 this percentage was 10.52%.

Income before taxes, ROE and number of loss-making companies

TABLE 6.7

Thousand euros

	Income before taxes	ROE before taxes	No. of loss-making companies
1999	1,012,857	86	14
2000	1,005,766	84	17
2001	701,725	63	20
2002	457,091	44	31
2003	445,318	44	23
2004	512,288	49	17
2005	622,779	53	16
2006	743,961	69	12

Source: CNMV

6.5. IIC custodians

Custodians are entrusted with the deposit and safe custody of securities, cash and other IIC investment assets as well as with monitoring the actions of SGIICs and other IIC administrators²⁷. Custodians have the guarding, custodial and monitoring duties essential for investor protection. Banks, savings banks, credit cooperatives, broker-dealers and brokers can operate as custodians. The CNMV is responsible for registering such activity.

At 2006 year-end, 132 IIC custodians were registered with the CNMV, three less than at the end of 2005. In terms of the market share for the various types of

25. The top five management companies by assets were Santander Gestión de Activos, S.A., SGIIC, BBVA Gestión, S.A., SGIIC, Invercaixa Gestión, S.A., SGIIC, Bansabadell Inversión, S.A., SGIIC and Ahorro Corporación Gestión, S.A., SGIIC.

26. 31 management companies have a ROE of under 10%, which in 12 cases is negative.

27. Article 57 of Law 35/2003 of 4 November on collective investment schemes.

depositories, most of these are banks as these accounted for 67.5% of IIC assets in custody in December. After these come the savings banks (28.3%), credit cooperatives (1.8%) and the broker-dealers and brokers (0.35%). Banks and savings banks have gained market share at the expense of cooperatives and broker-dealers and brokers with respect to 2005.

7 Provision of investment services

Under Spanish legislation several types of institutions can provide investment services. The firms which most specialise in the activities typical of securities markets are broker-dealers, brokers and portfolio management companies, all of which are overseen by the CNMV. Credit institutions also offer investment services and are likewise subject in this respect to CNMV supervision. Credit institutions have an especially important role in distributing securities market-related products among retail investors owing to the broad extent and deep penetration of their commercial network among the Spanish population. According to the Bank of Spain's Household Financial Survey (Encuesta Financiera de las Familias) published in 2004, 97.7% of the Spanish population has a bank account open. The survey also reveals that 10.8% of the population are holders of securities and that 7.2% have units in mutual funds. Most investments in mutual funds and securities were bought by people in a credit institution where they hold a bank account.

Credit institutions have a larger market share than the other companies mentioned in services as important as asset management, securities custody and administration and IIC marketing. Broker-dealers and brokers have a dominant share in stock market intermediary work. On the other hand, though they can perform other supplementary activities, portfolio management companies almost exclusively specialise in the discretionary management of marketable assets.

Broadly speaking, the buoyancy of securities markets had a favourable impact on the activities and performances of institutions providing these kinds of services in 2006. Within the sphere of companies subject to the prudential supervision of the CNMV, the generally better results and increase in equity helped to maintain an adequate level of solvency.

7.1. Credit institutions

7.1.1 Authorisation and registration

Credit institutions can supply all the activities envisaged under article 63 of the SML (Securities Market Law), namely investment services and complementary activities, provided that this is envisaged in their legal standing and articles of association and that they are specifically authorised by the regulatory authority¹.

1. The Bank of Spain is the authority charged with accrediting credit institutions and reports to the CNMV on credit institutions authorised to provide investment services.

On 31 December 2004 Spanish credit institutions (banks, thrifts and cooperatives) were registered in the CNMV's Official Register of Spanish Credit Institutions that provide investment services, which is two less than for 2005.

Foreign credit institutions authorised to operate in Spain may also provide investment services, whenever such activities are provided for under their authorisation regime². Foreign credit institutions can operate in Spain through a physical establishment (branch) or without one.

At 2006 year-end, 52 foreign credit institutions with branches in Spain featured in the CNMV's Register as available for providing investment services. Of these 52 institutions, 45 were authorised in other EU member states³. Seven firms were from non-EU countries, the USA being the non-EU country with the largest number of firms registered in Spain, at three.

According to the CNMV register, foreign credit institutions without physical premises which notified their intention to provide investment services in Spain amounted to 323. All of these except one, the Swiss-registered Dresdner Bank, had been authorised in other EU member states⁴. The number of firms that provide investment services without physical premises increased considerably in 2006, specifically by 8.4%, in line with the trend seen in previous years, and they have thus become one of the main sources of competition in the investment services market.

7.1.2. Securities business for credit institutions

Business relating to the securities markets constituted a major source of income for credit institutions, representing close to 30% of total fee income received by them over the year. Securities market-related services contributed 9.6% of total fees. Bigger still was the share of fees from marketing mutual funds, which amounted to 17.2% of the total (see Table 7.1).

For most investment services, credit institutions have a greater market share than do broker-dealers and brokers (see table 7.2). Credit institutions lost out on market share in income from asset management, administration and custody and marketing for mutual funds in favour of broker-dealers and brokers and portfolio managers. To be precise falls in market share amounted to 1.6% in asset management fees, 0.5% in administration and custodial fees and 0.7% in fees for marketing mutual funds. Credit institutions gained market share from broker-dealers and brokers in terms of fees for placements and underwriting and on securities trading of 4.2% and 1.8% respectively.

2. Foreign credit institutions intending to provide investment services in Spain must duly abide by what is laid down under Royal Decree 1245/1995 of 14 July regarding the incorporation of banks, cross-border activity and other issues relating to the legal framework for credit institutions.

3. See Annex III.8.

4. See Annex III.8.

Credit institutions: commission revenues for providing securities services and marketing non-banking financial products

TABLE 7.1

Financial institutions and investment services
Provision of investment services

Million euros

	2003	2004	2005	2006	% of total CI fees
Securities services	1,054	1,074	1,173	1,395	9.6
Placement and underwriting	189	123	97	143	1.0
Securities trading	273	305	365	472	3.2
Administration and custody	542	588	634	681	4.7
Asset management	49	58	76	98	0.7
Marketing of non-financial banking products	2,310	2,813	3,273	3,922	27.0
Mutual funds	1,658	1,977	2,179	2,498	17.2
Pension funds	202	231	371	433	3.0
Insurance	422	574	676	935	6.4
Other	29	31	47	57	0.4

Source: Bank of Spain and CNMV.

Credit institutions continued to dominate mutual fund marketing and securities administration and custody activities. There is also a sizeable difference between the market value of the securities deposited at credit institutions 1,891.9 billion euros at 31 March 2006, compared with just 67.5 billion euros lodged with broker-dealers and brokers.

Commission revenues for providing investment services in 2006

TABLE 7.2

Million euros

	Broker-dealers and brokers	Portfolio management companies	Credit institutions	Total	% CIs/total
Placements and underwriting	76	—	143	219	65.2
Securities trading	744	—	472	1,216	38.8
Asset management	53	22	98	173	56.8
Administration and custody	24	—	681	705	96.6
Mutual fund marketing	210	—	2,498	2,708	92.2

Source: Bank of Spain and CNMV.

Securities deposited¹ with credit institutions at 31 December

TABLE 7.3

Billion euros					
	2003	2004	2005	2006 ²	% chg 05/06
Fixed income	741.4	896.4	1,071.0	1,065.1	-0.6
Debt securities	670.4	812.7	982.1	976.0	-0.6
Commercial paper and discounted notes	71.0	83.7	88.9	89.1	0.2
Equities	578.9	649.2	749.5	826.8	10.3
Listed shares	541.5	607.9	702.1	784.1	11.7
Unlisted shares	37.4	41.3	47.4	42.7	-9.9
Total	1,320.3	1,545.6	1,820.5	1,891.9	3.9

Source: Bank of Spain and CNMV.

1. Listed securities are recorded at their market value and unlisted securities at their nominal value.

2. At 31 March 2006.

7.2. Broker-dealers and brokers

A total of 104 firms were registered with the CNMV as broker-dealers or brokers at the end of 2006, two more than the previous year (see Table 7.4). In contrast to the relatively stable number of Spanish firms, the number of companies authorised in other European Union member states which informed the CNMV of their intention to provide investment services in Spain again increased considerably. Notable in this category were firms under the free provision of services regime, which rose from 849 to 951, while the number of foreign firms with branches went up from 18 to 22.

Firms registered and removed

TABLE 7.4

Type of firm	Firms at 31/12/05	Registrations	Removals	Firms at 31/12/06
Spanish investment services firms	102	7	5	104
Broker-dealers	46	3	2	47
Market members	38	1	2	37
Non market members	8	2	0	10
Brokers	56	4	3	57
Market members	10	1	1	10
Non market members	46	3	2	47
Foreign investment services firms	867	146	40	973
Investment services firms with branch	18	6	2	22
Investment services firms under the free provision of services regime	849	140	38	951
Pro memoria:				
Representatives	7,090	679	564	7,205

Source: CNMV.

Of the Spanish firms it is worth noting that six out of seven of the ones authorised during the year were independent (see Annex III.8) inasmuch as another Spanish or foreign financial institution did not have a majority holding in their share capital. Two of the registrations were due to a change in type of firm: in one case this was

from a broker to a broker-dealer (Consulnor Servicios Financieros) and in the other case a portfolio management company to a broker (Q-Renta).

On the side of removals the most noteworthy point was that two of the five occurring in 2006 were subsidiaries of major financial institutions (La Caixa y Banco Espirito Santo), which had broker-dealer market member status. These removals suggest a continuation of a significant restructure process in the channels used by financial groups to provide investment services which by and large lead to fully-fledged integration of this activity within the parent company.

Restructure of this kind is favoured by the ample scope for banking institutions to operate in securities investment service activities which regulation acknowledges⁵. Here it should be added that more recently the scope for SGIIC to operate has been widened⁶, for which reason it is reasonable to foresee there being less interest on the part of financial groups in setting up subsidiaries among broker-dealers and dealers.

As Table 7.4 shows, the number of participants or representatives from broker-dealers and brokers is very high. Only 43 firms however had contracts of this type and over 93% of representatives were from five firms linked to insurance companies (Mapfre, Allianz, Axa, Gaesco and Catalan Occidente). Just one of these alone (Mapfre) accounted for 77% of the total.

The use of the so-called "European passport" by Spanish firms is still limited. On 31 December 2006 only two firms had branches in other European Union countries (in Portugal and the United Kingdom), whereas 32, or four less than the year before, used or stated that they intended to use, the above-mentioned passport under the free provision of services arrangement, i.e. without physically having premises in the host country. Germany, the United Kingdom, Portugal, France and Italy were, in that order, the host countries which had the greatest amount of notifications from Spanish firms under this type of regime (see Annex III.10).

As has already been mentioned, there was a sharp rise in the number of notifications of intent relating to the presence in Spain of non-banking firms authorised to engage in investment services. Firms authorised in the United Kingdom accounted for the bulk of notifications, both for branches and under the free provision of services arrangement. Thus it was that 18 of the 22 branches set up in Spain were from that country and 74% of notifications of the second kind (see Annex III.7). Also notable was the substantial number of notifications of intent to provide services under the free regime emanating from The Netherlands, France, Ireland, Austria and Germany.

7.2.1. Sector profitability and solvency

In aggregate terms sector income before taxes amounted to 719 million euros, implying a 63.2% increase over 2005. The vigorous swelling of earnings is largely due to the

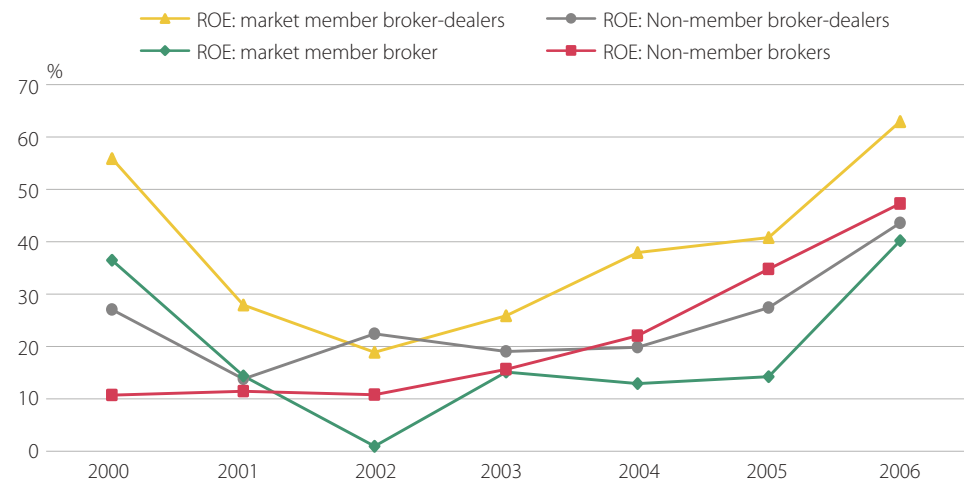
5. In particular Law 37/1998 on reform of the Securities Market Law, which transposed (among other measures) Directive 93/22 on investment services, allowed banks to acquire market member status directly, whereas this had previously been exclusively reserved for broker-dealers and brokers. Foreign firms authorised in other European Union member states can attain such status directly if this is provided for under their authorisation regime.

6. Law 35/2003 on collective investment schemes (IICs) widened the set of operational options open to these institutions, particularly regarding discretionary portfolio management and IIC marketing.

auspicious impact of market trends on ordinary activities in the sector and, to a lesser degree, though this was likewise substantial, to windfall profits obtained by certain market member firms from selling out of BME. Such extraordinary transactions contributed roughly 16 percentage points to the rise in the sector's pre-tax earnings.

Broker-dealers and brokers: ROE before taxes

FIGURE 7.1



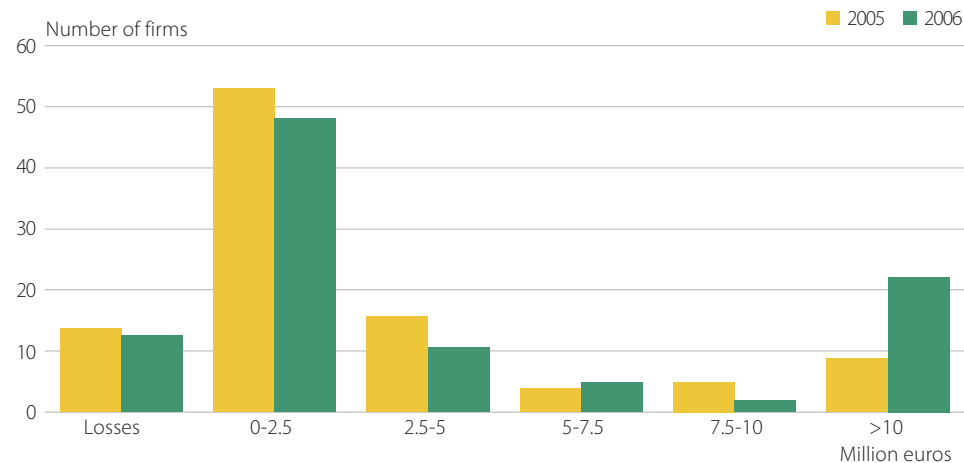
Source: CNMV.

Sector buoyancy boosted ROE considerably, this being compatible with a very sound level of solvency being maintained. As Figure 7.1 illustrates, ROE growth affected four types of firm operating in the sector, this being especially stark for market member broker-dealers, whose average equity weighting reached 63.57%.

A more unbundled approach to analysing sector performance shows that the rise in earnings and returns before taxes was widespread and that almost all firms at year-end had a considerably ample margin of cover with respect to the capital adequacy ratio.

Broker-dealers and brokers: frequency of earnings before tax

FIGURE 7.2



Source: CNMV.

As regards earnings, 77% of firms already active by the close of 2005 improved their pre-tax profit in 2006. As Figure 7.2 shows, the number of firms in the lowest earnings brackets fell off while there was a considerable increase among the higher ones (over ten million euros). There were 13 loss-making firms, which was just one less than in 2005, yet the overall value of losses was slashed (see Table 7.5) thanks to the improvement in the figures of a firm which had been responsible for the greater part of losses the previous year⁷.

Loss-making firms¹: number and value

TABLE 7.5

Thousands of euros

	No. of firms		Value of losses	
	2005	2006	2005	2006
Market member broker-dealers	4	2	17.463	1.449
Non-member broker-dealers	0	0	0	0
Market member brokers	2	3	716	1.162
Non-member brokers	8	8	2.469	3.787
Total	14	13	20.648	6.398

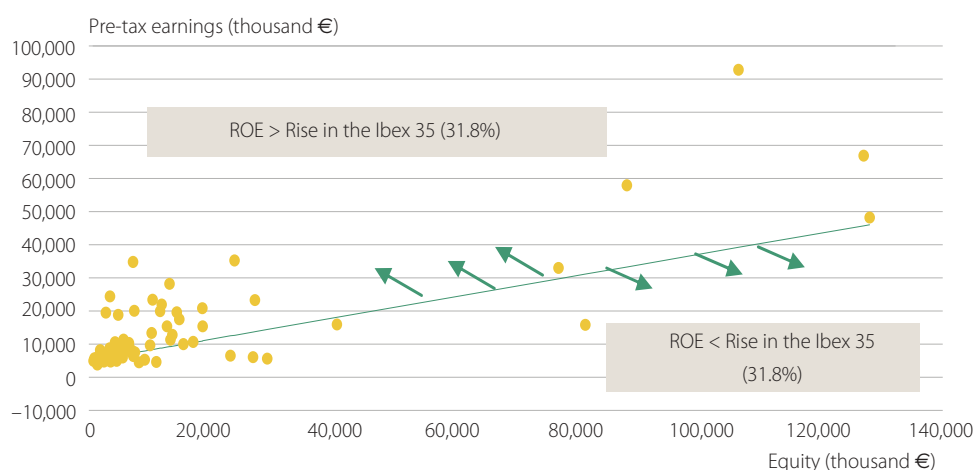
Source: CNMV.

1. Before taxes.

Furthermore 72% of firms active in 2005 bettered their pre-tax ROE in the year. Returns were high for most firms, although in the lower brackets a sizeable number of them was still grouped together. So for example, while 60% of firms achieved a ROE above returns on the Ibex 35 (see Figure 7.3), one fifth of them had one below the yield on long-term public debt.

Broker-dealers and brokers: earnings and equity

FIGURE 7.3

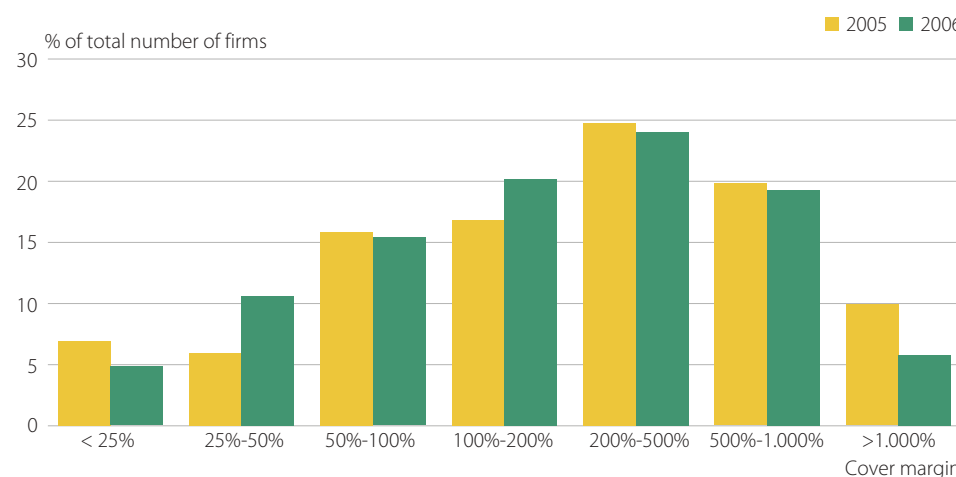


Source: CNMV.

In terms of capital adequacy, over 95% of firms at year-end had surpluses over required equity levels of greater than 25% (see Figure 7.4). For 69% of firms the surplus was over 100%. As has been the case in recent years the existence of high surpluses has inclined certain firms towards marking them downwards to reduce their cost of capital.

Cover margin to required equity

FIGURE 7.4



Source: CNMV

7.2.2. Broker-dealers

Broker-dealers that are market-members (SVB)

Of the four types of firm that work in the sector, broker-dealers that are market members are the most significant group in terms of activity, size and profits. In 2006 these firms accounted for 78% of computable equity and 74% of sector earnings before tax. Their status as stock market members is decisive in the earnings structure of most SVBs owing to the predominance of market brokerage fees.

As may be seen from the income statement summary given in Table 7.6, last year there was a strong surge in aggregate earnings before tax for these firms. Even if extraordinary earnings stemming from the sale of holdings in BME by certain firms already mentioned are not taken into account, a substantial increase in earnings before tax for market member broker-dealers can still be reckoned, of close to 43%.

As has become usual, a high concentration in the group's aggregate earnings was observed. Thus the five top earnings generators accounted for a little over 51% of the total. Notwithstanding this, the improvement in earnings was widespread. Only two of the 37 firms in this group achieved pre-tax profits lower than in the previous year and loss-makers dropped from four to two, with a substantial reduction in the amounts involved (see Table 7.5).

Broker-dealers: income statement

TABLE 7.6

Thousand euros

	Market members		Non market members	
	2006	% chg. 06/05	2006	% chg. 06/05
Financial income	11,910	-77.76	5,415	32.36
Net income from securities trading	44,155	-77.64	4,180	45.14
Net commission revenues	686,250	16.32	89,127	40.77
Commission revenues	891,574	16.87	117,515	38.82
Brokerage	590,968	18.47	38,984	42.29
Placement and underwriting	73,278	24.87	0	n.m.
IIC subscription and redemption	87,199	15.67	54,113	24.45
Portfolio management	18,627	4.31	5,256	91.75
Others	121,502	8.39	19,162	73.73
Commission expenses	205,324	18.74	28,388	33.06
Total net revenues	742,315	-11.73	98,722	40.46
Operating expenses	399,364	5.07	46,568	41.86
Personnel	256,327	5.45	33,888	49.27
General	143,037	4.38	12,680	25.23
Operating income	342,951	-25.59	52,154	39.23
Depreciation and other charges	12,476	-45.57	1,423	0.78
Other gains and losses	233,554	353.45	12,342	1,163.25
Earnings before taxes	564,029	63.09	63,073	70.35
Taxes	174,300	68.38	22,151	75.77
Earnings after taxes	389,729	60.84	40,922	67.56

Source: CNMV.

n.m.: Non meaningful change (previous figure equals zero or has opposite sign to present one).

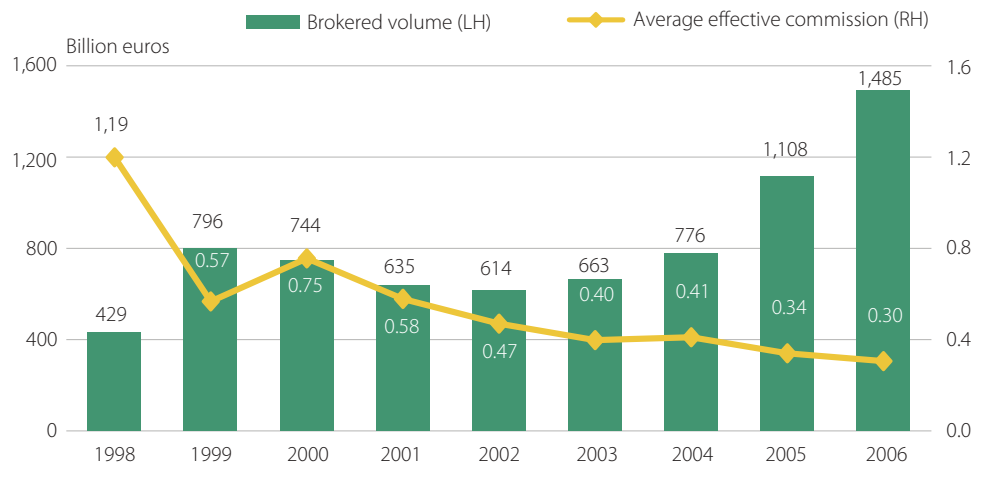
Earnings from ordinary activities and the moderate rise in operating expenses contributed positively to the increase in aggregate profits for the bulk of firms. Here it should be pointed out that Table 7.6 does not adequately reflect trends for total net revenues or operating income for most of the member broker-dealers. The noticeable fall in these captions with respect to the previous year is from the sharp rise in financial costs and the drop-off in net income from securities trading on own account by one firm (Merrill Lynch⁸). Excluding this, total net revenues only dropped for one of the other 36 member broker-dealers and operating income for seven, while the results of own account activities included under total net revenues (financial income plus net securities income) rose for 23⁹.

8. The rise in financial costs for this firm is from financing trading on own account in derivatives markets in emerging countries. This firm also had a negative net income from securities trading although this was offset by a sharp rise in profits from foreign currency valuation counted under the heading of "Other gains and losses".

9. Excluding Merrill Lynch the aggregate total net revenues for the remaining firms in the group grew by 19.1% and operating income by 35.7%. For the other firms together, financial income rose 10.7% and net income from securities 90.4%.

Broker-dealers that are market-members (SVB): brokered volume and average effective commission on Spanish equities

FIGURE 7.5



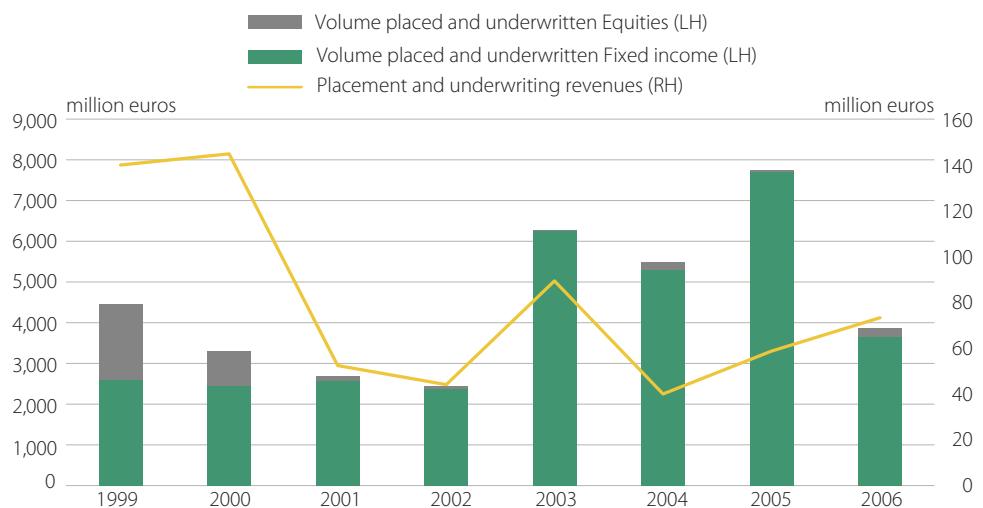
Source: CNMV.

Within total net revenues most of these came from activity for third parties (net commissions received). As is usual for this section, broking activity stood out, contributing two thirds of gross commission revenues. In particular, intermediary business in Spanish stock market represented 51% of gross commission revenues. As Figure 7.5 shows, the volume brokered by member broker-dealers in this market advanced apace, at the same time as applicable broking commissions again fell on average, though less sharply than the previous year.

Within commission revenues notable shares in activity were accounted for by marketing IICs and placement and underwriting of issues. Regarding the latter, the most noteworthy aspect was the increase in equity business, which provides greater revenues than fixed-income for a given nominal amount placed or underwritten. As Figure 7.6 illustrates, gross earnings under this category continued to rise despite the appreciable fall in nominal amounts for fixed-income transactions.

Broker-dealers that are market-members (SVB): placement and underwriting revenues and volumes

FIGURE 7.6



Source: CNMV.

Broker-dealers that are non-market members (SV)

As Table 7.6 shows, all items in the aggregate income statement for non member broker dealers relating to their chief sources of revenue progressed well in 2006, which meant that aggregate pre-tax earnings rose by over 70% for this group of firms. Non member broker dealers contributed 8.7% of the sector's earnings before tax.

Seven of the ten firms in the group managed to improve earnings before tax relative to 2005 without a single one making a loss. Profits centred very much on two firms (Mapfre Inversión and J.P. Morgan), which achieved more than three quarters of the total.

Business for third parties contributed 90% of this group's aggregate total net revenues. As is typical, among these was IIC marketing, where the group's largest firm had a decisive share (Mapfre). This activity provided 46% of gross commission revenues. Also notable was broking, which contributed one third of gross commissions.

Lastly one might mention the powerful upturn in earnings under the caption of "Other gains and losses", these being exclusively attributable to one firm (J.P. Morgan).

7.2.3. Brokers

Brokers that are market-members (AVB)

Table 7.7 shows that aggregate earnings for member brokers were sharply up on 2005. This improvement was nonetheless not across the board for the group as three out of ten firms in it obtained worse results than the year before, running into losses. On the other hand one firm (Mercados y Gestión) was responsible for 45% of the group's earnings before taxes. Member brokers spoke for 1.4% of the sector's aggregate profits before taxes.

As is the case with member broker-dealers, revenues for member brokers rely heavily on equity market broking. In this case such dependency is even more marked given that these firms cannot trade on own account and nor are they generally have sufficient infrastructure due to their size to diversify their activities. Over the last year broking commission represented almost 80% of their gross commission revenues.

Brokers: income statement

TABLE 7.7

Thousand euros				
	Market members		Non market members	
	2006	% chg 06/05	2006	% chg 06/05
Financial income	2,742	-9.1	10,192	33.2
Net income from securities trading	3,397	12.5	541	89.2
Net commission revenues	23,528	24.6	209,919	27.0
Commission revenues	29,652	20.9	267,378	30.3
Broking	23,673	16.6	90,438	16.5
Placement and underwriting	42	n.m.	3,141	-17.8
IIC subscription and redemption	791	40.2	67,722	48.5
Portfolio management	1,132	35.9	27,540	96.2
Others	4,014	42.0	78,537	22.5
Commission expenses	6,124	8.6	57,459	43.6
Total net revenues	29,667	19.1	220,652	27.4
Operating expenses	20,944	-1.1	134,317	21.6
Personnel	12,020	-2.7	86,275	23.3
General	8,924	1.1	48,042	18.7
Operating income	8,723	133.5	86,335	37.7
Depreciation and other charges	1,633	101.9	7,367	0.1
Other gains and losses	2,745	193.3	3,094	n.m.
Earnings before taxes	9,835	154.6	82,062	52.2
Taxes	3,273	187.1	26,175	42.5
Earnings after taxes	6,562	141.0	55,887	57.2

Source: CNMV.

n.m.: Non meaningful change (previous figure equals zero or has opposite sign to present one).

Brokers that are non-market members (AV)

Together with member broker-dealers, non-member brokers are the most numerous group among the firms operating in the sector. These are generally small-sized firms which are highly specialised: broking in derivatives or fixed income, international markets, asset management, IIC marketing, advisory work etc.

The diverse nature of this group is mirrored in the distribution of results. In 2006 aggregate earnings before taxes for these firms rose 52% (see Table 7.7), yet 14 of the group's 47 firms did not manage to better their 2005 results and eight made losses¹⁰. It should also be pointed out that three firms (Altura Markets, Credit Agricole Assets Management Distr. and NMAS 1) accounted for two thirds of the group's earnings before taxes. Non member brokers together contributed 13% of the sector's earnings before tax.

10. As can be seen from Table 7.2, non member brokers were responsible for 59% of the losses accumulated by broker-dealers and brokers.

Among the group's revenues the largest swathe was from broking business, which brought in 34% of commission revenues. Also significant were IIC marketing and portfolio management with 25% and 10% respectively out of the total.

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7.3. Portfolio management companies (SGC)

Activity among portfolio management companies (SGC) fundamentally focuses on the service of discretionary administration of marketable assets, which is something that broker-dealers and brokers, IIC management companies, and banks can do as well. It thus comes as no surprise that in recent years there has been a notable scaling down in the number of firms operating in this sector due to both restructures of financial group subsidiaries and the effect of competition on the smaller-sized independent firms. Last year was no exception. By the end of it a total of 15 portfolio management companies were registered with the CNMV, which was two less than the previous year. As has been stated, one of the departures from the register (Q-Renta) was because it changed itself into a broker.

Table 7.8 shows that although the number of portfolios rose slightly, the value of assets managed did so considerably, in turn prompting a sizeable increase in commissions received (see Table 7.9). Yet the fall-off in commission on other services, mainly advisory work, and the strong rise in third-party commission expenses translated into a decline in net earnings on ordinary activities (total net revenues) in the sector of 9.6%. All in all, aggregate earnings before taxes rose almost 30%, thanks to the drop in operating expenses. In terms of equity weighted average, sector ROE before taxes was 19.1%, slightly lower than the previous year (19.8%).

Assets managed by portfolio management companies		TABLE 7.8	
Thousand euros			
	31/12/2005	31/12/2006	% chg 06/05
Total			
Number of portfolios	4,024	4,071	1.2
Assets	3,130,285	4,246,329	35.7
Distribution per portfolio type			
SICAV			
Number	34	35	2.9
Assets	242,980	282,165	16.1
Other portfolios managed			
Number	3,990	4,036	1.2
Assets	2,887,305	3,964,164	37.3

Source: CNMV.

Portfolio management companies: income statement

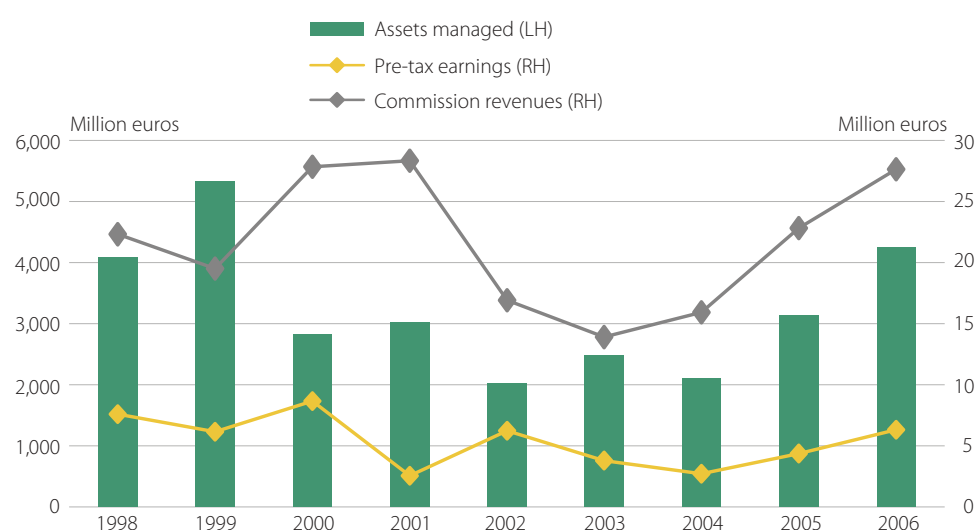
TABLE 7.9

Thousand euros			
	2005	2006	% chg 06/05
Financial income	575	895	55.6
Net income from securities trading	65	6	-90.8
Net commission revenues	17,164	15,195	-11.5
Commission revenues, of which:	25,508	27,625	8.3
Portfolio management	18,813	22,068	17.3
IIC subscription and redemption	592	261	-55.9
Others	6,103	5,296	-13.2
Commission expenses	8344	12,430	49.0
Total net revenues	17,804	16,096	-9.6
Operating expenses	11,753	9,744	-17.0
Personnel expenses	6,697	5,535	-17.3
General expenses	5,056	4,209	-16.7
Operating income	6,051	6,352	5.0
Depreciation and other charges	1211	401	-66.9
Other gains and losses	30	359	1096.7
Earnings before taxes	4,870	6,310	29.6
Taxes	1,405	2,198	56.4
Earnings after taxes	3,465	4,112	18.7

Source: CNMV.

Portfolio management companies: Managed assets, commission revenues and pre-tax earnings

FIGURE 7.7



Source: CNMV.

The improvement in results affected 12 out of the sector's 15 firms, while only one firm, a small-sized one, made losses (two in 2005). The highly concentrated nature of the results should be noted. As already occurred in 2005, just one firm alone (Santander Carteras), the subsidiary of a major banking group, made around 49% of the sector's pre-tax earnings.

By year-end the sector had an overall surplus over equity required under the capital adequacy rules of 77%. Individually speaking there was a high dispersion of the excess but only two firms were under 25%. Over the year certain companies, though less than in 2005, temporarily fell short of the capital adequacy ratio due to the rise in funds under management and the consequent increase in required equity.

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8 Venture capital firms

8.1. Law 25/2005 on venture capital firms (ECRs)

On 26 December 2005 Law 25/2005 of 24 November came into effect. This regulates venture capital firms (ECRs) and their management companies (SGECRs) and replaced Law 1/1999 of 5 January. The purpose of the new law, among others, was to make the Spanish venture capital sector more flexible and modern by bringing in greater swiftness to the regimes for authorising and modifying venture capital firms and investments. Likewise a distinction was drawn between venture capital firms under the ordinary system and those under a simplified one¹. Under the ordinary system funds of funds are allowed so as to smooth access for individuals from private banking to this kind of investment.

8.2. Venture capital firms registered with the CNMV

The coming into force in 2006 of Law 25/2005 coincided with a substantial rise in the number of firms registered. To be exact, the number of venture capital firms registered with the CNMV at year-end was 221, whereas at the close of 2005 there had been 166. Over 2006 22 venture capital funds and 27 such companies² registered, so by the end of the year there were 64 funds and 102 companies on the register (see Table 8.1). There was also a major escalation in management companies registering, 11 new companies coming onto the register³, the year closing with 55 management companies on it⁴.

One of the funds on the register is a fund of funds which will list on MAB in March to try to achieve greater liquidity. Another firm has declared it intends to back a fund of funds which is also to be admitted to listing on MAB.

The firms registered are geographically largely clustered in Madrid and Catalonia, where 65.3% of them are to be found. In 2005 the concentration level for these areas was around 70% of the total.

-
1. Simplified system firms are those satisfying following conditions: (i) shares or equity have to be offered privately, (ii) this offer should be made with a minimum investment commitment per investor of 500,000 euros and (iii) the number of share- or equity holders must not exceed twenty.
 2. Besides this, on 31 December 2006 there were 15 venture capital firms pending registration with the CNMV and 10 going through the authorisation process.
 3. Those venture capital firm management companies registering were: Mercapital Private Equity, Arcano Capital, Atitlan Capital, Debaeque, Sports Funds Management Company, Axon Capital e Inversiones, Eland Private Equity, Suma Capital, Realza Capital, Abraxa Integrated Financial Solutions and GED Sur Capital.
 4. Besides this, on 31 December 2006 there were 4 venture capital firm management companies pending registration with the CNMV and 5 going through the authorisation process.

Registration and removal of venture capital firms in 2006

TABLE 8.1

	Situation on 31/12/2005	Registrations	Removals	Situation on 31/12/2006
Firms	166	60	5	221
Venture capital funds	43	22	1	64
Venture capital companies	78	27	3	102
Venture capital firm management cos.	45	11	1	55

Source: CNMV.

Registration of venture capital firms with the CNMV is voluntary, for which reason not all firms are registered. With the bringing in of Law 25/2005 it is hoped that most venture capital activities will be conducted by venture capital firms registered with the CNMV.

According to the sector's professional association, ASCRI⁵, which most firms are members of, the portfolio at cost price by year-end 2006 accumulated by companies investing in capital risk in Spain amounted to 10.74 billion euros, which means 15% more than the like figure for 2005. Total investment for the year was 2,715 billion euros, a lower figure than that attained in 2005, which was 4,117 billion euros. A high number of transactions were recorded, at 612. It should be remembered that 2005's investment figure was exceptional due to two large deals: the acquisitions of Ono-Auna and Amadeus by foreign operators. Sector disinvestment in 2006 amounted to 1,302 billion euros, while new capital was raised worth 3,108 billion euros. Of funding raised the presence of Spanish firms was a notable: 64% was raised by these firms⁶.

5. ASCRI stands for Asociación Española de Entidades de Capital-Riesgo (Spanish Venture Capital Association).

6. In 2005 75% of funds raised was from investments made in Spain by foreign firms.

IV Regulation and supervision of securities markets

9 Issuer disclosure and corporate governance

9.1 Issuer disclosure

For capital markets to function properly, the issuers of listed securities must maintain a continuous flow of information aimed at investors, analysts and other users which is channelled through the CNMV. Regulated information is grouped into three blocks: (i) periodic financial information, (ii) price-sensitive information with no set degree of regularity and (iii) information relating to significant holdings by shareholders and directors, and financial contracts conferring the right to buy shares and treasury stock upon directors.

9.1.1 Annual information, audits and periodic public disclosure

Annual financial statements and auditor' reports¹

All issuers of securities admitted for listing on an official secondary market which are not subject to public law are obliged to send the CNMV the auditors' report together with the annual financial statements and the management report². 2005 was the first year in which the consolidated annual accounts of issuers were drafted under the International Financial Reporting Standards (IFRS) adopted by the European Union.

During 2006 the CNMV received a total of 766 audit reports (individual and consolidated) and 35 special audit reports³ (see Table 9.1). The 7.1% increase on the year before owes itself to the rise in securitisation funds and companies applying for their shares to be listed on securities markets.

Following on with the positive trend observed in the last three years, the number of audit reports expressing a favourable opinion has risen compared to 2005, reaching 91.9% of the total registered. This percentage is the highest since the CNMV's Official Register of Auditors' Reports was set up in 1989.

1. This information is available on the CNMV's web-site at www.cnmv.es, in the section titled "Registro Oficial de las Cuentas Anuales Auditadas", under the heading "Entidades emisoras", "Informes de Auditorías y Cuentas Anuales".

2. Article 35 of Securities Market Law 24/1988. Institutions exempt from this law are "[...] the State, the Regional Autonomies and International bodies which Spain is a member of, as well as other bodies bound by public law which the Government designates [...]".

3. Special audit reports are designed to update the information from audits which contain qualifications. Such updating is done at the end of the first half of the year after the one involving the audit with qualifications.

Of the reports which did not express a favourable opinion, 37.1% only include an exception due to inconsistency in applying accounting standards. This type of exception does not reflect any failure to comply with accounting standards on the grounds that the auditor has not stated that they are in disagreement with the company's conduct. Excluding qualifications prompted due to a lack of consistency, the percentage of audit reports expressing a favourable opinion would reach 94.9% of the total.

Activities carried out by the CNMV regarding audited annual accounts include reviewing the accounting standards and the methods of valuation employed, as well as checking that they contain necessary and adequate information so they can be properly interpreted and understood and that they are made available to the public within the time-spans pursuant to current legislation. As a result of such analysis:

- 83 companies, which were mainly issuers of preference shares and other fixed-income securities received summons for not posting auditors' reports and special audit reports before the established deadlines.
- 20 companies were required to give account of the reasons which provoked the qualifications presented and whether plans existed to remedy them.
- 65 companies were ordered to send further information to the content of the annual reports and explain the application of certain accounting criteria or discrepancies detected between the annual accounts and the periodic publicly released information.

With respect to requests for additional information, among other issues, clarification was sought as to accounting policy and its impact on the financial statements, supplementary data on omissions of obligatory factual breakdowns, descriptions of significant risks and uncertainties in the management report⁴ and, for those companies which only publish individual annual reports, information required to be included in the notes to the report on the principal changes that would affect equity and results had the IFRS adopted by the European Union been adopted⁵.

To facilitate the dissemination of such information the CNMV has made available to the public on its web-site the unabridged text of the annual accounts, management report and the auditors' report of issuers in both individual and consolidated form, as well as a summary of audit qualifications, responses to summons due to there being qualifications or requests for further enlightenment on the content of the notes to the accounts and special audit reports. The CNMV also publishes an annual report which includes a study of checking activity carried out over the year and a statistical summary of the principal data contained in the audits of issuers.

4. The amendment to article 202 of the Corporations Law had a description of risks and uncertainties affecting the company included in the management report.

5. The new section 16 of article 200 of the Corporations Law requires that companies with securities listed on a regulated market and which only have to present individual annual reports provide such information.

Working meetings have also been held with 25 listed companies and with the major audit companies, which combined account for 92.7% of the total number of reports received at the CNMV. At these meetings the more significant general issues were discussed⁶ which have come to light at most companies audited and other, specific aspects arising⁷ in relation to particular companies, with the intention of putting errors to rights and improving the quality of the annual accounts for 2006.

Periodic public financial disclosure

Currently going through parliament is the reform bill for Law 24/1988 of 28 July on the Securities Market to amend the system for takeover activity and regarding issuer transparency, which is aimed at transposing the Transparency Directive (Directive 2004/109/EC).

Among other amendments the reform bill for the Securities Market Law sets out the periodic information which listed companies should publish and send to the CNMV, bolsters the CNMV's supervisory powers regarding financial information, establishes the system of issuer responsibility in connection with published financial statements and widens the range of types of infringements to sanction failures to comply with the obligations envisaged in the bill.

The current draft of the bill lays down the following periodic disclosure obligations for issuers of securities traded on stock markets and AIAF:

- Within a maximum of four months following the end of each financial year all issuers are to publish an annual report comprising the audited annual financial statements and the management report, as well as a declaration of liability as to their contents.
- Issuers of listed shares and debt securities are to publish a half-yearly financial report consisting of a summary of financial statements, an interim management report and a declaration of liability as to their content, all within the maximum space of two months from the end of the period in question.
- Issuers of shares are to publish an interim management statement during the first and second half of each year which is to include at least: (a) an explanation of significant facts and transactions which might have taken place within the period and their impact on the financial position or on that of the consolidated group and (b) a description of the financial status and results situation for the company and its group of companies.

6. Accounting criteria in applying the IFRS to issues such as : how to post elements in business combinations, assets and liabilities on deferred tax, asset and goodwill impairment, how to value financial instruments and hedging,...,etc..

7. Audit report qualifications, certain omissions from breakdowns in the information in the notes to the accounts, analysis of risk and uncertainty in the management report and the effect of the IFRS on individual financial statements.

Audits of issuers filed with the CNMV

TABLE 9.1

Percentages of total audits filed

	2003		2004		2005	
	No.	%	No.	%	No.	%
1. Audits filed with the CNMV	690	100.0	715	100.0	766	100.0
Individual financial statements	473	68.6	506	70.8	553	72.2
Consolidated financial statements	217	31.4	209	29.2	213	27.8
Special reports under Ministerial Order 30/09/1992	50		34		35	
2. Auditors' opinion						
Unqualified opinion	615	89.1	636	89.0	704	91.9
Opinion with consistency exception	2	0.3	31	4.3	23	3.0
Other qualified opinion	73	10.6	48	6.7	39	5.1
3. Types of qualification						
Reports with exceptions	45	6.5	29	4.1	20	2.6
Reports with uncertainties, etc.	43	6.2	27	3.8	25	3.3
Reports with limitations	5	0.7	5	0.7	5	0.7
4. Effects of exceptions						
4.1 Effects of exceptions on earnings						
Reports with positive effects	18	2.6	12	1.7	2	0.3
Reports with negative effects	21	3.0	13	1.8	16	2.1
4.2 Effects of exceptions on equity						
Reports with positive effects	11	1.6	3	0.4	5	0.7
Reports with negative effects	5	0.7	3	0.4	5	0.7
5. Nature of uncertainties, etc.						
Going concern	14	2.0	7	1.0	6	0.8
Tax contingencies	10	1.4	4	0.6	4	0.5
Asset recovery	15	2.2	10	1.4	13	1.7
Disputes and litigation	10	1.4	11	1.5	9	1.2
Other uncertainties	16	2.3	11	1.5	5	0.7
Denial of opinion or adverse opinion	1	0.1	0	0.0	1	0.1

Source: CNMV. CNMV Public Register of Auditors' Reports. They relate to auditors' reports on annual financial statements and special reports filed with the CNMV up to 31 December each year. Percentages are calculated with respect to the total number of auditors' reports received.

9.1.2 Significant events and other disclosures filed with the CNMV

In 2006 the CNMV received 8,585 disclosures on material facts from issuers, 21.5% more than in the previous year (see Table 9.2).

The rise in material information was mainly due to disclosures relating to (i) acquisitions or transfers of holdings, which rose 62% owing to a greater number of corporate moves in the form of takeover bids and the changing hands of significant blocks of shares and (ii) as in 2005, periodic information sent by asset-backed (54.4%) and mortgage-backed (4.2%) security funds.

In 2006 a new kind of disclosure came in under the heading of Other Disclosures, which covers meetings with analysts and investors, with 194 notifications received.

Similarly disclosures relating to the publication of presentations on companies rose 29.4%. All this is a reflection of the palpable effort by listed companies to enhance the diffusion of information when meetings are held with analysts, investors and other securities market professionals. The risk of uneven information emerging is reduced in this way and following the recommendations described in the letter sent out by the CNMV's Chairman at issuers in 2005.

Significant events and other disclosures filed with the CNMV TABLE 9.2

Type	2005	2006	% chg. 06/05
Significant events	5,671	6,854	20.9
Acquisitions or transfers of holdings	495	802	62.0
Notices and resolutions of shareholders' meetings	557	548	-1.6
Issuers' advance results	923	890	-3.6
Changes to the Board and other governing bodies	344	308	-10.5
Audit Committee (Law 44/2002)	10	3	-70.0
Periodic information from asset-backed funds	1,209	1,847	54.4
Periodic information from mortgage-backed funds	809	843	4.2
Annual corporate governance report	286	259	-9.4
Suspensions and resummptions of trading	96	117	21.9
Delistings (including prior agreements)	69	22	-68.1
Other	873	401	-54.1
Other disclosure	1,392	1,731	24.4
Announcement of coupon and dividend payments	237	257	8.4
Meetings with analysts and investors. Calls to meet ¹	—	194	—
Information about issuers' results	454	258	-43.2
Company presentations	269	348	29.4
Other	432	403	-6.7
Total	7,063	8,585	21.5

Source: CNMV.

1. This kind of material fact was introduced in 2006.

9.1.3 Significant holdings

The Securities Market Law⁸ and its implementing regulations⁹ require investors to notify the CNMV of any acquisitions or transfers of shares in a listed company whenever these reach certain percentages of their share capital¹⁰ considered to be significant. When such a transaction is carried out by a company director the disclosure obligation is extended to all movements made involving shares in the company, irrespective of their amount.

8. Article 53 of the Securities Market Law.

9. Royal Decree 377/1991 of 15 March on the disclosure of significant holdings in listed companies and of share buy-backs by these (amended by RD 2590/1988 of 7 December concerning changes to the legal framework applying to marketable securities and RD 1370/2000 of 19 July regarding stock option rights). Further revised by the Ministerial Order of 23 April 1991 and CNMV Circulars 2/1991 and 4/2000.

10. According to RD 377/1991 these percentages are 5% and additional multiples thereof. Should the acquiror be domiciled in a tax haven or territory which lacks any securities market supervisory body, the threshold is 1% and further multiples thereof.

RD 1333/2005 on market abuse further widened disclosure requirements to directors and executives of Spanish resident issuers, who must notify the CNMV about any financial transactions they make involving shares in listed companies and indicate the price this was made at and the market where this took place.

In 2006 3,532 disclosures on significant holdings were registered with the CNMV, 6.2% of which were made beyond the official deadline, whereupon the parties concerned received a summons. Total disclosures by type of person to whom the law applies breaks down as follows:

— Significant shareholders:

There were 1,077 disclosures relating to transactions in the capital of 131 companies, although some 255 of these (23.7%) were in connection with only 8 companies.

57.6% of disclosures were due to acquisitions, while the remaining 42.4% were for transfers. In 40.2% of cases the final position of the person obliged to disclose was within a band of 5 to 10% of the relevant company's share capital.

The range of different kinds of significant shareholders reveals that the construction sector has bought up major holdings in energy sector companies, while companies in the financial sector have continued to disinvest in Ibox 35 companies.

Annex IV.1 shows the significant shareholders in Ibox 35 companies on 31 December 2006, broken down into brackets of holdings in their share capital.

— Board directors:

A total of 2,455 disclosures were made concerning the holdings of 753 directors in relation to 155 different listed companies, although 21.7% of the total registered referred to 9 companies.

Among board member disclosures there was a noticeable trend in favour of acquisitions, as these accounted for 76.8% of the total.

— Executives:

In 2006 the CNMV received 275 disclosures from a total of 180 executives in relation to 48 companies, of which 23 were in the IBEX. This volume represents a very substantial rise compared to the 13 disclosures made in 2005 when the regulations were passed bringing in the obligation to make them.

9.1.4 Options and other rights associated with remuneration systems

Royal Decree 1370/2000¹¹ and Circular 4/2000¹² lay down the obligation upon the board members of listed companies to disclose the acquisition or transfer of option

11. Royal Decree 1370/2000 of 19 July amending Royal Decree 377/1991 of 15 March on disclosure of significant holdings in listed companies and share buy-backs by these.

12. CNMV Circular 4/2000 of 2 August establishing the standard forms for disclosing option rights and remuneration systems for directors and management of listed companies.

rights on the shares in their companies. For these purposes option rights on stock are taken to embrace warrants, convertible or exchangeable debentures and any other securities which confer upon their holders the right to subscribe for or acquire shares.

In 2006 there were 162 disclosures of option rights posted by 73 directors regarding the acquisition or transfer of option rights on shares in 23 separate listed companies, although disclosures concerning one company alone represented 38.9% of the total received.

Table 9.3 gives those companies whose directors held the right to exercise options or other like assets at year-end, most of these falling under remuneration systems arranged by the companies themselves.

Disclosure of stock options at 31/12/2006

TABLE 9.3

Companies	Index ¹ / Market	No. of Directors
ACS	Ibex 35	4
Altadis	Ibex 35	2
BBVA	Ibex 35	3
Bankinter	Ibex 35	10
SCH	Ibex 35	5
Campofrío	Electronic market	4
Cintra	Ibex 35	2
Dogi	Electronic market	1
Gestevisión Tele5	Ibex 35	3
Grupo empresarial Ence	Electronic market	1
Ferrovial	Ibex 35	3
Prisa	Electronic market	7
Iberia	Ibex 35	1
Indra	Ibex 35	3
Inditex	Ibex 35	2
Jazztel	Electronic market	9
Natra	Electronic market	4
Natraceutical	Electronic market	4
NH hoteles	Electronic market	1
Service Point	Electronic market	2
Sogecable	Ibex 35	1
Total (21 companies)		72

Source: CNMV.

1. Composition of the Ibex 35 at year-end 2006.

9.1.5 Treasury stock

The First Additional Disposition of Spain's Corporations Law and Royal Decree 377/1991 lay down the obligation on listed companies to notify the CNMV of any share buy-backs or acquisition of those in their parent company when such purchases, whether made in isolation or successively, total more than 1% of the share capital.

193 share buy-back disclosures were made in 2006, which was 3.8% more than in 2005. Of the total of 49 companies affected by these disclosures, 18 belonged to the Ibex 35, accounting for a total of 38 disclosures.

9.2 Corporate governance

9.2.1 By-law restrictions

Good governance codes advocate that listed companies do not include restrictions in their articles which hamper or prevent taking control of the company by buying its shares in the market. Such restrictions or safeguard clauses can take several forms, such as: limiting the number of votes that a holder can exercise at the shareholders' meeting, setting a minimum number of shares to be allowed to attend such a meeting, requiring supermajorities over the legal limit in voting or imposing seniority minimums to access certain positions on the board.

To heighten transparency regarding such restrictions, CNMV Circular 1/2004 of 17 March on the annual report on corporate governance for listed corporations, established the obligation to provide details of safeguard clauses in the annual report on corporate governance.

A total of 23 listed companies have by-law restrictions on voting rights which shareholders can exercise at their general meeting irrespective of the shareholding they may possess, of which 10 belong to the Ibex 35.

A total of 106 listed companies restrict attendance at the shareholders' general meeting to those owning a number of shares above a minimum established in the articles. In most cases the minimum number required is under 500 shares. 9 companies (among them one in the Ibex 35) however require that holders own at least 0.1% of the share capital, which is the maximum limit permitted under the Spanish Corporations Law.

9.2.2 Shareholder agreements

According to the definition described under Law 26/2003 (The Transparency Law), shareholder agreements are those which regulate or condition the exercise of voting rights at shareholders' meetings or restrict the free transfer of shares and convertible or exchangeable debentures in listed corporations.

This law requires that shareholder agreements are publicised as are others which affect listed companies or companies controlling them.

Entering into, extending or altering a shareholder agreement must be disclosed to the listed company affected and the CNMV and announced as a material fact. The document where the agreement is featured must be lodged with the Mercantile Register.

The Transparency Law granted a three-year amnesty period, which ended on 18 July 2006, for disclosing, publishing and effecting deposit for those agreements which affected over 5% of the share capital or voting rights of a listed company which had been executed, altered or extended prior to the coming into force of the law.

By the beginning of 2006 there were 22 standing shareholder agreements which affected 19 listed companies, of which 7 belonged to the Ibex 35. In 2006 14 new agreements were referred to the CNMV which had been in force at the close of the year (see Table 9.4).

Shareolder agreements disclosed in 2006 TABLE 9.4

Company affected	Market	% share capital affected
Abertis	Ibex 35	40.34
Banco de Sabadell	Ibex 35	9.95
Banco Popular Español	Ibex 35	14.45
BSCH	Ibex 35	0.75
Iberia	Ibex 35	36.80
Repsol	Ibex 35	6.10
Uralita	Electronic market	46.37
Parquesol	Electronic market	14.06
Renta Corporación	Electronic market	47.32
Riofisa	Electronic market	70.00
Aguas de Barcelona	Electronic market	47.70
Técnicas Reunidas	Electronic market	51.69
Tele Pizza	Electronic market	90.13
Vocento	Electronic market	46.69

Source: CNMV.

9.2.3 Related-party transactions with listed companies

Listed companies perform related-party transactions which may consist in the transfer of assets, services, funds or bonds, regardless of whether or not this involves consideration.

These transactions are on occasion a source of conflicts of interest because profits may derive from them for certain of the company's related parties to the detriment of the interests of its shareholders. This fact prompted regulation of this, in the shape of Law 44/2002 which obliges issuers to disclose related-party transactions. Order EHA/ 3050/ 2004 lists of the kinds of transactions which must always be reported. This rule was applied for the first time to the half-yearly public information filed as from 30 June 2005.

In the first half of 2006 most companies considered (88.4%) made transactions subject to the obligation to disclose.

Table 9.5 shows that in the first half of 2006 1,722 related-party transactions were reported (66.1% more than in the like period for 2005), made by 192 companies for

a total amount of 74,325 billion euros (15.2% more than for the first half of 2005). Of this amount 81.2% was from transactions made by ten companies¹³, which just goes to show the high level of concentration volume-wise for such transactions, which was also the case for the previous period.

Related-party transactions at listed companies¹

TABLE 9.5

Million euros								
	No. of companies		Transaction type ²		No. of transactions ⁴		Amount	
	2005	2006	2005	2006	2005	2006	2005	2006
Transactions with...								
Core shareholders:	54	99	29	30	440	774	50,161	54,514
Directors and executives	79	174	23	27	367	505	5,422	2,885
Group persons or companies	32	52	25	27	158	254	7,476	11,559
Other related parties	18	39	18	21	72	189	1,471	5,367
Total	116	192	33	33³	1,037	1,722	64,530	74,325
% of total								
Core shareholders	46.6	51.6	87.9	90.9	42.4	44.9	77.7	73.3
Directors and executives	68.1	90.6	69.7	81.8	35.4	29.3	8.4	3.9
Group persons or companies	27.6	27.1	75.8	81.8	15.2	14.8	11.6	15.6
Other related parties	15.5	20.3	54.5	63.6	6.9	11.0	2.3	7.2

Source: CNMV.

1. Figures for the first half of each year.
2. Number of transactions made for each category of related party.
3. Total number of transaction types included in the half-yearly formal periodic public disclosure.
4. Number of transactions made for each category.

The related-party transactions worth most were those made with key shareholders, accounting for 30 of the 33 among categories considered. The largest volumes were for loan agreements.

The aggregate amount of related-party transactions with directors and executives fell notably on 2005 and the most common transactions were loans, guarantees and collateral, contributions to pension plans and life insurance policies, compensation and remuneration.

Loan agreements and providing services represented over 90% of the total volume of related-party transactions with group companies or persons. Lastly the breakdown of the value for transactions with other related parties saw a major relative rise on 2005.

9.2.4 Remote voting for shareholders' meetings

The amendment of article 105 of the Spanish Corporations Law in sections 4 and 5, brought in under Law 26/2003, meant the start of greater involvement by listed

13. Telefónica Móviles, Repsol YPF, Telefónica, Merrill Lynch Luxembourg, Endesa, Iberdrola, ACS, Abertis, Gas Natural and Enagás.

companies in developing procedures to foster remote or proxy voting at general shareholders' meetings.

Over the last three years listed companies have stepped up efforts to adapt their internal regulations, develop remote voting IT systems, enable such systems to be used by shareholders and broadcast them on their corporate web-sites, as well as explain in their notices to attend general meetings exactly what the procedures in place are to vote remotely.

So as to guarantee reliability and be sure of the identity of the shareholder or their proxy, companies have put in place the use of electronic signatures, mostly obtained through a digital certificate issued by an external certificate authority or an e-banking platform in the case of banks.

In 2006, 83.2% of listed companies had included remote voting in their by-laws. Furthermore, 74.3% had already adapted the regulations for their shareholder meetings to include this option and 25.7% already had this system running. In practice the use of e-voting at general meetings is still however of little significance¹⁴.

9.2.5 Listed companies' web sites

The CNMV constantly monitors the web-sites of companies listed in Spain and savings banks with traded shares so as to ensure compliance with the transparency regulations regarding their content, structure and accessibility of information for investors.

Now that a significant level has been achieved of adaptation to the regulations by most companies, the CNMV in 2006 has focused especially on analysing the web-sites of those companies starting to be listed on the stock market. On the other hand, companies have been reminded to respect at all times the requirements regarding accessibility of information. The dynamics of Internet and modifications to purely commercial content cannot be allowed to impinge on clarity and ease of browsing as respects information which is required for shareholders and investors.

9.2.6 Securities issuers' corporate governance reports

In December 2006 the CNMV presented the first Report on Corporate Governance for Issuers of Securities Admitted to Trading on Official Secondary Markets¹⁵. It analyses the salient aspects of the IAGCs (annual reports on corporate governance, *informes anuales de gobierno corporativo*) for 2005 received by the CNMV: 176 listed companies, 42 savings banks and 22 of the other issuers of fixed-income securities admitted for trading.

14. The latest available data, for general meetings held in 2005, indicate that this type of voting was used by 17 companies, representing in two of these 0.6% and 0.3% of the share capital owned respectively and less than 0.01% for the rest. In 2004 e-voting had only been used at 3 companies.

15. Obligated to publish an annual report on corporate governance under the Third Additional Provision of the Transparency Law.

In 2005 the companies examined had not noticeably altered their corporate governance structures and practices, although certain headway had been made with respect to the previous year. For listed companies the most pertinent aspects of their reports were the following:

- The average free float of listed companies was 38.7%. At 57 companies (32.4% of the total) some individual or legal entity was exercising or potentially could exercise control.
- 80% of companies had between 5 and 15 board members. The overall average was 9.6, distributed as follows: 19.7% were executive directors, 45.2% were nominee directors, 31.1% were independent and 4.0% non-executive directors. At 52.3% of listed companies independent directors constituted less than 1/3 of board members.
- 37.5% companies had a delegate committee with executive powers and 59.7% had set up an appointments and remuneration committee. This committee proposed the appointment of 58.6% of new board members, this figure rising to 67% in the case of independent ones. Its composition, as well as that of audit committees displayed an ample majority of non-executive directors.
- The average remuneration for boards including all elements, was 1.96 million euros, a sum very similar to that recorded in 2004. On average each board member received 203,000 euros, 4.1% more than the year before. On the other hand, the average remuneration for senior management in 2005 was 346,200 euros, compared with 262,900 euros in 2004, which means a rise of 31.7%.
- The total volume of key shareholder-related transactions disclosed in IAGCs (annual reports on corporate governance) amounted to 61,614 billion euros (82.1% up on the amount shown in 2004 reports) and the figure for director and executive transactions was 2,718 billion euros.
- The average attendance at ordinary shareholders' meetings in 2005 was 71.3%.

As regards the 22 issuers of securities other than shares¹⁶, in 68.8% of cases core shareholdings accounted for 100% of the share capital. The average number of board members was 11.1, with a comfortable majority of non-executive directors, as executive ones represented 12.4% of the total. 10 companies (45.5% of the sample) had an executive committee, while none of these companies had set up an appointments and remuneration committee. The aggregate figure for related-party transactions with key shareholders disclosed in reports amounted to 5,907 billion euros and not one company reviewed disclosed in 2005 that they had carried out related-party transactions with their directors or executives.

16. Obligated to publish an annual report on corporate governance under the Third Additional Provision of the Transparency Law.

Finally in 2005, 42 annual reports on corporate governance were received from savings banks with securities admitted for trading on official securities markets¹⁷. Their main features were as follows:

- The general assemblies of savings banks on average comprised 135 general directors, 25% of whom represented municipal corporations, 36% depositors, 10% founders, a further 10% employees and the remaining 19% other groups. With 80.9% of the savings banks analysed, the total for general directors representing municipal corporations and depositors accounted for most voting rights at the general assembly.
- On average the boards of savings banks consisted of 17 members. On the other hand the control committee on average consisted of 8 members. 38% of savings banks had an audit committee, while for the rest of companies the control committee assumed these duties.
- According to the information gleaned from the IAGCs, (annual reports on corporate governance), loan, guarantee or collateral transactions carried out with members of their boards amounted to 218 million euros, 27.8% more than the total figure reported the previous year. The amount of transactions carried out by savings banks with political parties came to 42.2 million euros, which was slightly lower than in 2004. Finally during 2005 loan transactions with public institutions which had designated general directors with the savings banks rose to 2,562 billion euros, which represented a 3.0% increase on 2004.

9.2.7 Unified Good Corporate Governance Guidelines

On 22 May 2006 the CNMV board passed the Unified Good Corporate Governance Code for listed companies, thereby complying with the mandate covered under Order ECO/3722/2003 of 26 December concerning the annual report on corporate governance so that the CNMV should draw up a single document on corporate governance to include the recommendations set forth in the Olivencia and Aldama reports and incorporate the latest international progress on the subject.

Basic principles behind Unified Good Corporate Governance Guidelines

Four basic principles inspired the Unified Guidelines:

- Their voluntary nature, following the "comply or explain" principle: it is the own decision of every listed company to comply or not with the recommendations in the guidelines, although if they do not follow any of them they should explain why they have decided not to.

17. Obligated to publish an annual report on corporate governance under the Second Additional Provision of the Transparency Law as revised by CNMV Circular 2/2005 of 21 April on the annual report on corporate governance and other information from savings banks issuing securities admitted for trading on official securities markets.

- Binding definitions: it is mandatory to respect the meaning which the Unified Guidelines gives to the concepts it uses to formulate its recommendations when declaring whether or not they are complied with.
- Evaluation by the market of corporate governance practices without the level of compliance serving as a basis for any CNMV resolutions.
- General nature: the guidelines address all listed companies without distinction regarding size or level of capitalisation.

The Unified Guidelines contain 58 recommendations which deal with issues relating to by-laws, the general meeting, the composition and way of working of the board and delegated bodies and the remunerations of directors and senior management. Notable among these are:

- It is recommended that listed companies have no by-law restrictions which might hamper control being taken of them through buying shares in the market. When a parent company and a dependent company are listed, it is advisable to define the business relationship within the group publicly and the mechanisms in place for overcoming any conflicts of interest.
- It is advisable to reinforce the role of shareholders as a decision-making body in moves involving structural modification of the company. To enhance transparency and shareholder participation at the meeting, the guidelines suggest furnishing prior information on proposed resolutions, separate voting on independent matters and splitting up voting.
- It is recommended that, at the heart of their mission, the board takes on responsibility for approving company strategy and making precise arrangements to put it in practice, as well as overseeing the actions of management, to which end it is advised that the board as a whole reserves competence to resolve on matters that their essential task requires and spells out which are the most important of these.
- The guidelines include recommendations on the size and functional structure of the board, it being necessary to achieve an appropriate split between the genders of those working on it. Issues are also examined which relate to the appointment, re-election and dismissal or resignation of board directors, including the figures of chairman and company secretary or the preparation and holding of board sessions and it proposes a highly detailed set of measures with regard to the remuneration of directors and executives with the essential aim of upping transparency.
- Regarding committees set up within the board, the guidelines recommend that there be one committee (or two separate ones) for appointments and remunerations, which it recommends is given important duties. As to its composition, three specific recommendations stand out: i) it should only comprise non-executive directors, ii) it should have a majority of independent directors and iii) its chairman must be an independent. i) and iii) are also

recommended for the audit committee, which is a mandatory body under legal rules, and which the guidelines consider should be assigned a set of important tasks, for which reason its members should have sufficient know-how and experience in accounting, financial, account auditing or risk control matters.

Regulation and
supervision of the
securities markets
Issuer disclosure and
corporate governance

Lastly the guidelines include a set of binding determinations – such as, for example, the requirements which a director must meet to qualify as an independent director – and a series of supplementary recommendations to Government, the CNMV and financial institutions..

10 Market supervision

Acting in its capacity as market supervisor, the CNMV looked into 64,000 transactions in 2006 (1.2 of every thousand in total), which represents 1.9% more than in the year before. The selection of transactions to investigate was based on signs or alarms raised by certain features of them.

Summary of supervisory activity. 2006

TABLE 10.1

	Equities	Fixed income	Derivatives	Settlement	Total
No. of transactions	22,943,452	624,928	3,813,662	28,260,022	55,642,064
Supervisory signals ¹	34,709	3,544	6,501	19,314	64,068
Summons	611	16	28	43	698
Supervisory reports	202	13	34	14	263
Reports sent to other Directorates and bodies	6	4	11	16	37
Periodic reports	13	12	24	12	61

Source: CNMV.

1. Signals that identify transactions or batches of transactions where there have been unusual movements according to certain set parameters in order to analyse them for supervisory purposes.

10.1 Actions in the various markets

10.1.1 Equities

A special effort was made in 2006 to increase efficiency in combating abusive market practices in application of the provisions of the Market Abuse Directive and their implementing norms, transposed to the Spanish set of rules on a wide range of legal principles. Within this framework for activities particular stress has been laid on the fight against insider trading.

The practice of insider trading not only produces unfairness in favour of investors privy to such information but it also detracts from market efficiency by distorting prices. The chief consequence of insider trading is a gradual lack of confidence by investors in those markets where they understand that insider trading goes unpunished without pertinent corrective measures being taken.

To this end the CNMV has come down in favour of a more pro-active policy based on the provisions of article 85 of the Securities Market Law and to increase effectiveness has performed supervision from afar including visits to companies under scrutiny in cases of alleged insider trading.

There are certain situations in the life of listed companies which might give rise to privileged information and which have been the object of special attention over the past year by the CNMV. Among situations where there may typically exist privileged information are takeover bids, buy or sell transactions involving sizeable blocks of shares and the drafting, presentation and public circulation of research notes.

Suspension of trading due to disclosure of information

The CNMV is empowered to suspend securities from trading when they suspect that material information exists in relation to it which is unknown to the market, thus seeking to avoid the uneven dissemination of such price-sensitive information.

Suspension of trading is maintained only for as long as necessary to ensure that such information is adequately disseminated, in order to minimise the cost of this to investors in liquidity terms. In 2006 the CNMV continued to make efforts to reduce average suspension periods by drawing up a set of specific proposals currently available to the public within the context of the Iniciativa Contra el Abuso de Mercado (initiative against market abuse, ICAM)¹, aimed at minimising the number of suspensions and reducing the periods for these. Notable among proposals were those to recommend to listed companies that they assign to a director the status of authorised interlocutor with the CNMV and draw up a protocol for the CNMV to act in cases of potential signs of market abuse. Such proposals seek to put in place a procedure for urgent information to inform the market and process and manage decisions to make suspensions.

Moreover, the regulation of takeover bids² requires trading to cease when the CNMV receives requests for authorisation of a move of this kind. Furthermore, at the end of the period for accepting a delisting offer, the CNMV suspends trading in the security until delisting is performed.

The number of suspensions rose notably in 2006 as a result of the increase in takeover bids proposed (Table 10.2). Corporate takeover or merger transactions sparked most suspensions, as even those grouped under the heading “Disclosure of significant information” in Table 10.2. were mostly motivated by acquisitions of large blocks of shares or material facts relating to bid-launches.

The 22 suspensions registered for presenting offers affected a total of 17 issuers. Two of these were the object of three suspensions for presenting competing offers and a third one was suspended twice due to the same circumstance. In the case of

1. ICAM is an initiative under the auspices of the CNMV which seeks to galvanise and channel the collective efforts of professionals, financial institutions, investors and public and private institutions to eradicate market abuse towards the continued improvement in the integrity of the Spanish securities markets. In January 2007 an initial draft was submitted for public consultation including various proposals which is available on the CNMV's web-site (www.CNMV.es).

2. Article 13 of Royal Decree 1197/1991 of 26 July on the system for takeover bids for securities.

Temporary suspensions of trading

TABLE 10.2

	2005	2006
Number of issues suspended	44	50
Number of suspensions	68	82
Presentation of takeover bid	12	22
Disclosure of significant information	54	56
Expiry of acceptance period for delisting offers	1	2
Others	1	2

Source: CNMV.

two companies, Cortefiel and Transportes Azkar, the suspension was due to the end of the acceptance period for a delisting offer.

Analysis of the detection of privileged information relating to takeovers

The CNMV made a special effort to monitor takeover bids to detect possible signs of insider trading relating to disclosure, presentation or execution periods. Takeovers were also investigated which were not registered in Spain (due to the bid target being foreign) but which were launched by Spanish companies.

Supervision of partial offers for Metrovacesa

On 1 March 2006 Cresa Patrimonial, S.L. tabled an offer for 20% of Metrovacesa at 78.10 euros a share. Subsequently, on 5 May 2006, Alteco Gestión y Promoción de Marcas, S.L. and Mag-Import, S.L.U. (henceforward "Alteco and Mag-Import") also presented a bid for 26% of the same company at 80.0 euros a share.

On 7 August Cresa Patrimonial, S.L. raised its offer to 26% at 90 euros and appealed before the Audiencia Nacional (National Court) against the CNMV's acceptance of the Alteco and Mag-Import offer. On 8 September the CNMV threw out Cresa Patrimonial, S.L.'s application to improve its offer and subsequently, on 13 September, the Audiencia Nacional rejected Cresa Patrimonial, S.L.'s application for precautionary suspension of the Alteco and Mag-Import offer.

On 22 September 2006 both competing public offers were resolved whereby 14.44% of the share ownership accepted the offer made by Cresa Patrimonial, S.L., which lifted its stake in Metrovacesa to 38.74%. On the other hand the offer put forward by Alteco and Mag-Import was accepted by 21.63% of shareholders, bringing its stake in the company up to 43%.

Most analysts predicted that following resolution of the offers Metrovacesa shares would suffer a major fall in price down to a level approximating to the net value of its assets, given that, according to the existing consensus Metrovacesa was supposed to be priced with a premium of roughly 50% over this value.

Contrary to the forecasts of most analysts Metrovacesa the share-price shot up in the market. On 25 September, the first day its listing was resumed following the

outcome of the bidding, Metrovacesa closed at 101.20 euros, 30% above its closing price on 20 September, the last day of the acceptance period for the offers.

In the wake of this the share-price has remained at an average of close to 121.5 euros, hitting a high on 18 December 2006 (134.90 euros, some 73.5% above its 20 September closing price).

For the purpose of assessing the feasibility of maintaining an orderly market in trading Metrovacesa shares following the takeover bids, its share capital potentially available for trading in the market was analysed. This took into account, firstly its level of free float by deducting shares in controlling stakes from the total. The direct result of the offers was to deprive the stock of almost three quarters of its previously registered liquidity. The resulting liquidity was hit by positions held in the stock using borrowed securities, which had grown in number in a substantial way as a result of the fact that a high level of acceptances for the offers were made by investors running short positions. Consequently, the deprivation of 36.09% of share capital due to offers was exacerbated by the need to buy back stock in the market on the part of shareholders running short positions.

This situation advised in favour of watching over market activities very closely involving loans of shares in the stock and how they affected trends in trading in it in the market.

The available market evidence gave rise to the CNMV requesting on 25 September that the Technical Advisory Committee (*Comité Asesor Técnico*, CAT) for the Ibex 35 should reconsider whether the property company should remain in the index. On 3 November the CAT concluded that Metrovacesa shares complied with the minimum requirement of a 0.30% capitalisation which its expected liquidity in terms of volume traded should remain among the 35 major stocks and that the reduction from 80% to 20% in its free float adjustment ratio would allow it to replicate the index effectively, thereby considering that it was appropriate to keep Metrovacesa in the Ibex 35.

Subsequently to the Ibex 35 CAT's ratification of its staying on in the index and up to the date of the agreement reached with its key shareholders to split up the company (19 February 2007), Metrovacesa has seen trade in 255,713 shares (11,859,339 euros in money terms) on average per day, compared to 513,266 (31,449,592 in euro money terms) a day traded on average since the start of 2006 up to confirmation of its staying on in the Ibex 35 (2 November 2006).

Supervision of buy and sell transactions involving significant volumes

Among the supervisory activities in equity markets a second line of work consisted of boosting efforts to track sales of blocks of shares through placements with institutional investors in both bought deals and book building³.

3. In international terminology a bought deal is a firm trade where the client agrees the amount and price of the transaction with the financial intermediary, who takes on the risk of searching out the counterparty needed to offload the risk assumed. In the case of book building or initial sounding out the financial intermediary sounds out the market first on behalf of their client and follows this up by determining the final transaction price and arranging a firm order.

The CNMV has kept in contact with companies carrying out placements of this nature and recommended the most appropriate procedures so as to lessen the risk of leaking privileged information with the potential impact on the market this entails. In addition to individually monitoring different placements analysis has been made of the degree to which recommendations have been adhered to and market transactions from the point of view of detecting possible insider dealing.

Also studied have been significant increases in stakes by shareholders in listed companies through buying up sizeable volumes of shares in the market. Knowledge of an interest in buying a sizeable holding in the shares of a listed company features as a possible case of privileged information which could be used improperly by those privy to it. As a result the CNMV also stepped up supervision and monitoring of this type of activity in 2006 and carried out detailed investigations of roughly 33% of rises in significant positions, including the most sizeable.

Following these practices and discussion with the companies which carry them out in the Spanish market allows a deeper insight into this kind of practice with a view to regulating it adequately, meaning they can be conducted in the Spanish markets in an orderly way and trading pursued which does harm to the integrity of markets by adversely influencing trading conditions or giving rise to opportunities for insider trading for certain investors.

Monitoring research notes and presentations

Finally it should be pointed out that under the provisions of the Market Abuse Directive and its implementing regulations, and from a more preventative standpoint, special attention has been given to the degree to which analysts comply with and adhere to their obligations to head off improper use of privileged information.

In most cases monitoring analyst presentations has been carried out at a distance by considering their content in the light of publicly available information and following in detail developments in patterns of trading in the stock. On some occasions and using a more active approach certain presentations to analysts and investors have been attended which were of greater interest bearing in mind the moment in time as regards the company's position or that of its sector.

It should be stressed that the CNMV has observed a high degree of compliance regarding its recommendations on informative meetings with analysts, institutional investors and other securities market professionals which the CNMV sent out by letter to issuers on 22 December 2005.

The vast majority of companies sent out information before holding such meetings regarding their venue, date and time as well as how to access the information provided at presentations and even instructions on how to follow the presentation in real time. Companies also provided the CNMV beforehand with the content of information to be given out at analyst meetings, which allowed market

transparency to be reinforced by disseminating it as a material fact simultaneously with such meetings, thus increasing information disclosure without harming the legitimate interests of companies.

On the other hand, whether from a distance or through being actually present, monitoring of analysts' meetings has made it possible to verify that after presentations discussion and question time no information was divulged which had not already been made public. On this point one should also note the general monitoring efforts made by companies to honour their obligations to avoid giving out privileged information by keeping closely to the content of presentations and only providing public information. Nonetheless, in those specific cases where privileged information has been disseminated, the CNMV's monitoring activities have made it possible to require the information not made public beforehand so as to release it as a significant event without detriment to any investigations which might have been undertaken.

Comprehensive study of entries and exits of securities in relation to the Ibex 35

Among measures taken to back up the prevention of manipulative behaviour was the full analysis made by the DMS of entries and exits of securities occurring on the Ibex 35 during the various changes to the index which took place throughout 2006.

Belonging to the index is very important for companies as it offers, among other incentives, greater visibility, which translates into a potential gain in the liquidity of their shares, which may become part of the portfolios of many international investors. Joining the index, in short, heightens the stock's market reputation with the subsequent premium this entails.

The study made by the CNMV of every change in the composition of the index focused on verifying whether trading in stocks joining, potentially joining, leaving or which are candidates to exit in keeping with the technical norms for the make-up of the Ibex 35 has been orderly and legitimate for each period observed without there being any noticeable distortions tending towards any stocks displaying artificial levels of activity aimed at trying to remain in or join the index to the detriment of other stocks which are potential candidates for this.

To this end the CNMV has analysed trading in detail, for each calculation period for changes made to the Ibex 35, in those companies which are potentially candidates to join or leave the index beyond what was done before. The analyses include capitalisation, the volume traded, the quality of trading, concentration by members, buy-backs, trading on own account by broker-dealers, the amount held in each stock by collective investment schemes, as well as a whole further set of data, so as to assess the suitability of changes observed.

Analyses have included contrasts in regularity, officially extended to the 12 months preceding the calculation period in each case. No case has empirically been observed which displays conclusive evidence of a change in trading patterns between the calculation period and the 12 previous months.

10.1.2 Fixed income

In the fixed-income electronic market special attention has been paid to trades carried out by institutions in matador bonds due to their significant weight out of the total traded on this market.

As for supervisory work conducted in relation to the AIAF fixed income market monitoring work has continued of preference share trading, this being a market segment with high involvement by minority investors so as to verify if the prices applied by companies for their clients are in keeping with objective valuation criteria. By the same token, as a result of the major growth in securitisation bond trading and its high volume, special attention has been directed at tracking trades in these assets by institutional investors.

Action was also undertaken during the year aimed at perfecting reporting of trading by members and ensuring that this is done in accordance with established procedures. Particular care has been taken to check on the information reported and published by the AIAF market. In this sense improvements have been introduced especially with regard to trading between members and third parties by setting up stricter controls on reporting information (prior to settlement) on forward trades and sell-buybacks and buy-sellbacks and bettering market information (for example announcing transfers of stock as a result of collateral agreements).

10.1.3 Derivatives

MEFF equities

Late in 2006 changes were approved in the general terms for futures and share option contracts. To summarise these were:

- Increasing the number of possible underlying shares to 36, including 35 Ibox stocks and Prisa, which it has been possible to trade in since 22 January 2007.
- Changing settlement procedures on expiry for contracts on futures and options on individual shares to bring them into line with the usual practices on competitors' markets in Europe. These changes mark the end of the dual optional settlement system whereby the choice was offered of settling by netting or delivery. Under the new conditions contracts open on expiry will be settled through physical delivery of the underlying shares.

Within the sphere of European competition efforts are being made to harmonise settlement procedure for contracts as far as possible to cut operating costs for companies which trade on several derivatives markets. These changes come at a time of increasing international competition in contracts on individual shares which has spread to shares in foreign companies. This was the case for Eurex, which has started trading in contracts on Spanish underlying stocks, thus joining LIFFE which already quoted Spanish underlying stocks, albeit with low liquidity to date. At the same time each market is trying on the one hand to maximise differentiation of contracts and to keep up liquidity among underlying assets in the markets of

origin of listed companies and, on the other hand, standardise and harmonise operational procedure for contracts.

Moreover study has already commenced of the first drafts concerning regulatory changes whereby new registration alternatives would co-exist with the current system of individual client accounts. The new registration system would be compatible as an addition to those existing on the major world derivatives markets with which MEFF competes and with which it needs, to maintain the most harmonised procedures possible as regards trading, clearing and settlement so as not to increase operating costs vis-à-vis its main competitors.

MFAO

On 6 April 2006 Order EHA/1094/2006 was passed, whereby the special features of official secondary markets for energy derivatives are further clarified. Its second additional disposition covers changes to Order ECO/3235/2002 of 5 December which further defines the special features pertaining to official secondary markets in futures and options on olive oil to bring the requirements imposed upon industrial members into line with those laid down by MEFF for members trading on own account who are authorised to engage in such activities. The most notable changes were the lowering of the requirement to have equity to 50,000 euros from 300,000 euros originally and the removal of the initial margin collateral of 120,000 euros. The aim of the changes is to bring the requirements more into line with the real situation in the olive oil sector.

Following the previous change, a co-operative from the olive-oil sector has joined MFAO as an industry member. Without the regulatory change of 6 April 2006, the co-operatives would not have been able to access MFAO as industry members and would have had to trade through a market member with the cost increase this entails and the lower level of operational efficiency that broking entails compared to dealing directly in the market.

Warrants

As for the supervision of warrants, certificates and other products, in 2006 monitoring of the activities of specialists has been continued by means of automated measurement of spreads, volumes and time present in the market. On the other hand very special attention has been used in monitoring warrants trading within the ambit of potential insider trading which might affect underlying assets, basically prompted by the presentation of bids for these without any practices liable to sanction being detected.

10.1.4 Record-keeping, counterparties, clearing and settlement

In situ supervision of Iberclear

Between year-end 2005 and the first half of 2006 there was an in situ supervision of Sociedad de Sistemas During this a review was made of written and unwritten

operational procedures affecting how accounting registration was handled (encompassing the inclusion and maintenance of securities, the incorporation and activities of firms and the control of balances by the system), the management of clearing and settlement by the two platforms (CADE and SCLV) and the supervisory tasks assigned to Iberclear under the regulations. There was also a review of how IT systems were configured and of security measures, as well as Iberclear's contingency plan. Review of these aspects was done jointly in certain areas with staff from the Bank of Spain.

Based on conclusions from the visit, certain requests were made to Iberclear which have been put into effect over 2006 and others which have been built into its short to medium term strategic plan. Among other issues, a request was made to improve the central lending system and to optimise the deposit system. These issues have been dealt with by Iberclear under an action plan to manage stock market settlement risk. The other measures requested are aimed at improving settlement procedures, managing information and refining supervision procedures by Iberclear itself.

Iberclear-SCLV

On the basis of the coming into effect in April 2006 of Iberclear Operating Instruction (I.O.) 5/2006 allowing loans to be cancelled without the delivery of securities (mandatory up to now) monitoring work has continued regarding the quality of the Special Loans Register. As a result of such monitoring and research carried out following several months of the system working, it emerged that in spite of the Iberclear Operating Instruction there still persisted difficulties that, basically non resident firms, could not adequately update the loans register.

For this reason it was considered appropriate to ask Iberclear to form a working group in the first quarter of 2007 with the key players in bilateral loan activity to look into possible additional measures to adopt so as to continue to improve registration quality such that registers genuinely reflected the real situation in the market and avoided loans being held open that had actually been paid off.

Iberclear-CADE

Coding of incidents has been changed to improve identification of incidents on this platform.

10.2 Market Monitoring unit

The mandate of CNMV's Market Monitoring Unit (MMU) is to investigate the possible existence of practices contrary to market integrity. The MMU specialises in investigating situations where market abuse might exist, chiefly in cases of inside information and market rigging.

Within the sphere of investigations into privileged information, the MMU not only examines the chances of insider trading but also checks that issuers and firms

offering investment or investment advisory services in securities markets have set up procedures which they apply properly to comply with the codes of conduct laid down under Title VII of the Securities Market Law and Royal Decree 1333/2005 on Market Abuse.

Title VII of the Securities Market Law was amended in 2006 under Law 12/2006 which added a new article, 83 quáter, which obliges investment services companies and credit institutions which conduct transactions using financial instruments to report to the CNMV on trades which they deem as indicative of signs of insider trading or which constitute practices connected with rigging contrary to free price formation. To facilitate such reporting the CNMV has developed an e-form whose use is recommended, published in January 2007 as a document at the consultancy phase, even though the organisations mentioned and other European regulators have already been reporting suspect trades to the CNMV.

Table 10.3 gives a summary of the action taken in MMU investigations in the years 2005 and 2006.

Market Monitoring Unit's actions		TABLE 10.3
	2005	2006
Parties investigated	461	415
Individuals	264	236
Legal persons	197	179
Actions during the investigations	1,086	2,227
Summons	1,013	2,128
Request to foreign institutions for assistance	26	29
Depositions	25	48
Visits	22	22
Subsequent actions	10	5
Prior notifications and warnings	3	2
Initiation of disciplinary proceedings	7	3

Source: CNMV.

Since it was set up the MMU frequently asks foreign supervisors and regulators for their cooperation in investigations being carried out. Collaboration is generally under multilateral or bilateral agreements on consultancy, cooperation and the exchange of information signed by the CNMV and often consist of:

- Identifying the ultimate owners following transactions made on the Spanish securities market in the name of financial institutions based outside Spain but on behalf of third parties.
- Investigation into the conduct of companies or people resident in foreign countries.

During 2006 the MMU asked for greater collaboration from foreign supervisors and regulators in keeping with the great amount of activity engaged in by companies outside Spain, be they financial ones or of a different nature, not only in dealing in

financial instruments traded in Spain but also in corporate moves relating to Spanish issuers.

MMU investigations can give rise to steps being taken afterwards by the CNMV if it is thought that people under investigation have engaged in practices which are not entirely in line with the rules or fail to comply with them. In 2006, these actions were as follows:

- Initiation of disciplinary proceedings: The executive committee of the CNMV decided to initiate three disciplinary proceedings for possible passing on or use of inside information and other activities contrary to the Securities Market Law (involving four people). One such situation also involved the Tax Office being informed about the actions of one person for consideration as a crime of using inside information.
- Warnings: The Executive Committee of the CNMV decided to give two warnings to issuers so that in situations where information that had not been made public existed, they might improve fully comply with codes of conduct established in their own internal rules of this type.

10.3 Supervision of takeover bids

On the subject of takeover bids the CNMV analyses compliance with applicable rules, the information which the offeror should provide for shareholders and watches over the proper conduct of the bid process. In certain cases, among which delisting offers feature notably, the CNMV approves the price offered.

Among important aspects of supervision on this matter in 2006 the following are notable:

Judicial suspension of offers and adaptation of competing offer procedure

As a result of the judicial suspension of Gas Natural's offer for Endesa, the CNMV carried out several actions to inform the market and put in order the procedure for the offer for Endesa. It thus published an informative note as to the timing allowed for tabling competing offers for Endesa, issued several letters to Endesa's share depositories about the suspension of mandatory time periods and the revocable nature of acceptances within this context and declared the acceptance period for the E.ON offer suspended simultaneously with authorisation for it until, when the bid by Gas Natural was resumed in January 2007, it could give a firm start date and the procedure could continue for processing acceptances of the Gas Natural offer and making an improved offer in a sealed bid.

Processing competing offers

Besides the offers for Endesa competing offers were officially processed for a further three companies. The following aspects of supervision for these processes should be mentioned here:

- Regarding the offers for Endesa the CNMV interpreted that under competing conditions applying any change in the offer price should be made under the procedure pursuant to article 36 of Royal Decree 1197/1991 of 26 July whereby improved bids are made on a single date in a sealed envelope without detriment to the offeror deciding to anticipate their decision by publishing a material fact. In this case such information is binding. Under the system for competing offers this is maintained even should one of them be withdrawn.
- In the case of offers for Metrovacesa the CNMV Board agreed to reject the request for a better offer put forward as it understood that this was not in keeping with prevailing regulations on takeovers.
- In the case of Tele Pizza the CNMV did not accept for processing the request for authorisation for an offer for this company presented by Vidisco as this did not conform to the system for competing offers as it did not exceed the offer price of the latest preceding offer still undergoing processing. Finally Vidisco elected to present a new offer application by raising the offer price.
- As regards competing offers the CNMV received several writs, formal complaints about action taken and appeals against its own decisions. The most numerous relate to the offers for Endesa, but some have arisen in the cases of Metrovacesa, Europistas and Tele Pizza.
- In all competing offer processes the CNMV provides information on its web-site about the definitive dates for the end of the acceptance period for offers after the automatic extension up to the deadline for the period corresponding to the last competing offer. In three competing offer processes examined in 2006 it happened that the CNMV had to give notice of the extension of the period without being able at the time to fix the final deadline date as a competing offer was still being processed. There were also extensions to the acceptance period in other cases at the instance of the offeror having first sought authorisation from the CNMV.

Bids launched in several markets

Mittal Steel's offer for Arcelor was made simultaneously in France, Belgium, Luxembourg and Spain as Arcelor shares were listed on the securities markets in these countries. Arcelor is domiciled in Luxembourg.

- Given that Directive 2004/25/EC of 21/04/04 relating to takeovers, which regulates the competent authority for supervising takeovers in such cases, still had not been transposed in all the jurisdictions involved, the offer had to be made following the regulations of all the respective countries and processed in coordination by the four supervisory bodies to ensure that conditions of equality prevailed in all markets concerned. To do this it was necessary for the other regulators to adapt certain characteristics and terms of the offer required in some of the countries involved, including in certain cases, publication by the CNMV of market rules necessary to be observed in other markets such as, for example, the information on transactions involving a certain volume which might take place in the Spanish market.
- On the other hand, both in the case of Arcelor and that of Endesa, the offerors decided to make a similar offer in the United States. In such cases, unlike what

was said in the paragraph above, it is a question of two different offers, each subject to its own regulations, although they are formulated in substantially similar terms so that there is no unfair discrimination between shareholders operating in both markets.

Delistings after bids involving takeovers of control

In 2006 a single delisting offer was authorised, where the target was Cortefiel. In this case and in novel fashion, it was accepted that the offeror was not the company itself but rather its majority shareholder insofar as Cortefiel simultaneously applied to the CNMV for a delisting bearing in mind the offer formulated by its controlling shareholder and submitting a valuation report issued by an independent expert which was examined in detail by the CNMV. This offer was tabled following the takeover of control of Cortefiel in 2005 through another bid where 87.39% of the capital had been attained.

On the other hand, of the 11 offers in total made in 2006, in four cases there was a delisting process or it was started later (Tele Pizza, TPI, Hullas del Coto Cortés and Cementos Lemona). In the first three cases it was considered appropriate to carry out a new takeover bid to effect the delisting (authorised in 2007) bearing mind the number of shareholders or the percentage of the share capital still in circulation after the initial offer. In the case of Cementos Lemona, where 96.04% of the share capital was achieved in the first offer, the delisting was carried out without there being a need for another offer.

Offer prospectus warnings

The CNMV has included warnings to facilitate analysis and understanding of the offer prospectus on two occasions; in the offer by Mittal for Arcelor and that by Prisa for Sogecable.

11 Supervision of market participants

The supervision of market participants continues to respond to the twin aim of properly preventing and managing the risks through ongoing control of a horizontal nature, together with periodic or vertical review, carried out in both a remote fashion as well as on site.

As forecast in the 2005 Annual Report, this supervision methodology stems from a prior assessment of blanket risk profiles based on sector mapping or risk mapping, and includes two factors:

1. Quantitative factors, such as the trend of the financial and asset status of participants, the nature of their clientele and third-party assets on deposit or under management.
2. Qualitative factors, such as the company and administration structure, the internal control and governance measures, the level of financial support from their shareholders and the degree of independence and volatility of their revenue sources.

This methodology, based on international principles and inspired through the methodology implemented by other supervisors such as the Bank of Spain (SABER¹) or the British FSA (ARROW²), as well as in the COSO³ reports, the “Basic Principles for Efficient Supervision” from the Banking Supervision Committee (Basle) (October 2006) and the IOSCO⁴ principles. The CNMV has been implementing the supervisory focus over the last three years, based on a quantitative analysis and gradually incorporating a greater set of qualitative variables. Although the quantitative variables have so far represented a good way of assessing impact, the qualitative-type factors are far more efficient in tracing an adequate profile of the risks of each participant in an individual manner.

Alongside the individual analysis of risks and impacts, risk mapping requires an annual study on the situation and market forecasts. This study is used to appraise the impact of macroeconomic factors of influence on the weighted participants, depending on the sensitivity measured in accordance with revenue sources, business type, clientele and structure. This analysis, inspired by the so-called top-down analysis in ARROW terminology, provides a valuation adapted to participants’ vulnerability to unfavourable changes in their business environment.

1. Supervision of the Risk-Focused Banking Activity.

2. Advanced, Risk-Responsive, Operating Framework. This is the name of the risk-based focus for regulation of the Financial Services Authorities (FSA).

3. Committee of Sponsoring Organizations of the Treadway Commission.

4. International Organization of Securities Commission.

The current model is neither complete nor fully in place. The setting of the risk profiles remains to be carried out via the incorporation of mitigating measures that both the CNMV as well as the participants consider necessary and the specification of the weightings to be assigned to each of the risk factors. This will be performed in accordance with the targets to be covered by the supervision together with the study, not only of risks but also of impacts.

The result of this focus, based on greater involvement of qualitative factors and supervision of a preventive nature, has led to substantial improvement in the take-up of corrective measures by participants. Moreover, this has helped to increase the efficiency of supervisory tasks, thanks to the emphasis placed on the evaluation of the appropriate nature and sufficiency of procedures, the participants' internal organisational systems and the quality of their corporate governance policies.

Greater emphasis is being placed on the functions implemented by the internal control units, risks and regulatory compliance of the participants and their groups. This is in order to track the adoption and set-up procedure of corrective measures.

The supervisory experience has shown that preventive measures are far better than reactive or disciplinary-type measures. The risk control focus driven by the MiFID⁵ and the new solvency regulations stemming from Basle II⁶ have forced both supervisors and participants to move towards a conception of regulatory risk control with shared responsibilities, in so far as the risk of regulatory compliance must be dealt with as another risk to be managed in the same way as, for example, operating or market risks are handled.

In this context, the supervisory activity of the CNMV in 2006 focused heavily on the assessment of compliance with responsibilities by the participants' control units.

Table 11.1 shows a summary of the most frequently detected incidents within the sphere of investment services provision. Throughout 2006 these incidents did not affect the solvency of participants and are currently being resolved.

Synthesis of incidents detected at participants that provide investment services

TABLE 11.1

Area of analysis	Main incidents detected
Organisational structure, means and procedures	<ul style="list-style-type: none"> - Deficiencies concerning the set-up of measures to prevent information flows between separated areas of activity. (Intermediation on own behalf, intermediation on behalf of third parties, portfolio management, analysis, etc.).. - Deficiencies in the investment decision systems that do not ensure that these are taken autonomously within each separate area . - Unsuitable composition of boards of directors of collective investment management companies as they included executive staff from credit institutions related to their own account management area. - Deficiencies in the approval of the procedure manuals concerning marketing of investment products to retail investors by the corresponding bodies.

5. "Markets in Financial Instruments Directive". Directive 2004/39/EC from the European Parliament and the Council, dated 21 April 2004, governing financial instruments markets.

6. "New Capital Agreement" approved by the Basle Committee in June 2004.

Synthesis of incidents detected at participants that provide investment services

TABLE 11.1

Regulation and supervision of the securities markets
Market supervision

Area of analysis	Main incidents detected
	<ul style="list-style-type: none"> – Deficiencies concerning the criteria used to segment products and clients and the publishing and updating of procedural manuals in this regard. – Deficiencies in the procedures of recording agreements reached at the meetings of the different committees involved in the marketing of investment products.
Product/ client suitability	<ul style="list-style-type: none"> – Deficiency in the rating assigned to specific products marketed, through failure to properly show their complexity or inherent risk (CFA, guaranteed funds OPV, OPS, preferential equity shares, subordinated debt, warrants, structured products , etc.). – Inadequate criteria for splitting clientele, through failure to consider relevant aspects in order to determine risk profile. – Failure to heed the restrictions for marketing of complex or high risk products to clients with insufficient investment knowledge or experience, as well as not forming part of their target public. – Deficiencies or failure to heed the procedures set up to restrict marketing of complex or high risk products through specific distribution channels.
Advertising activity	<ul style="list-style-type: none"> – Discrepancies between the information contained in prospectuses, advertising information and the content of the internal notes or operational circulars sent to the commercial network with regard to the client's risk profile, product risk and core features of the same. – Deficiencies in the content of legal notifications or information periodically sent to clients that could lead to mistaken interpretations with regard to the return, cost or risks of the contracted products.
Marketing of products and other services	<ul style="list-style-type: none"> – Deficiencies in the selection criteria of investment products acquired through portfolio management contracts, placing the interests of the participant above those of their clients. – Selection of unsuitable products in accordance with the investment criteria set forth in portfolio management contracts. – Discrepancies with regard to the services contracted by clients and those actually provided by the participants, which could lead to a mistaken interpretation of those services by clients. (i.e. consultancy services and portfolio management). – Unsuitable use of portfolios managed for the purpose of reaching a minimum number of shareholders required by the SICAV. – Deficiencies in the marketing of IICs by requesting a current account that pay commissions and expenses be opened at the initial subscription of an investment fund. – Failure to obtain client's authorisation to record securities acquired in their name in global accounts as well as the information supplied on the risks inherent to this operation. – Deficiencies concerning the procedures set up in search of balancing entries to counter the instructions given by clients on own issues with restricted liquidity, as well as with regard to the prices offered to retail investors. – Discrepancies between the risk rating given to own issues and similar issues carried out by third parties.
Documentation and custody	<ul style="list-style-type: none"> – Deficiencies concerning the custody of clients' ID documentation, client profile documentation, contractual documentation and/or support documentation for the operations instructed by these clients.
Complaints service and customer care	<ul style="list-style-type: none"> – Deficiencies in the information shown on the web page referring to customer service. – Failure to include any reference on the possibility of making complaints to the CNMV in responses to clients.
Internal control	<ul style="list-style-type: none"> – Non-existence of periodic review schemes concerning the marketing of investment products to retail investors.

11.1 Supervision of investment services firms (ESI)⁷

11.1.1 Process of adaptation to the MiFID

September 2006 saw publication of both the Directive as well as the MIFID level 2 Regulations. Since that date, the CNMV has been participating on the CESR⁸ in the development of level 3, viz., the preparation of guides to assist the uniform implantation of Directive 2004/39/EC (MiFID Directive).

The scope of the MiFID is extremely broad, as all individuals and participants that act on the securities markets will be affected. It will likewise have an influence on the structure of markets and will affect the way that ESI operate, their organisation and dealings with clientele.

Since 2005, the CNMV has been paying special attention on the process of adaptation of supervised participants to the new regulatory framework that will come into force with the MiFID in November 2007. Along with dissemination activities of these changes, supervisory schemes have also been adapted to this end.

On 17 July 2006, the CNMV wrote to all financial entities warning them to prepare an adaptation plan as expeditiously as possible to analyse the foreseeable impact of the MiFID in each of the business areas and units, as well as the changes required to adapt to its coming into force. More specifically, they were asked to carry out analysis of the changes they would have to incorporate into their corporate governance structures, the role and responsibilities of the board of directors and senior management, and regulatory compliance, the administration of conflicts of interest, the outsourcing of duties, the custody of clients' assets, the holding of records, contingency and business continuity plans, classification of clientele and client awareness for the proper application of the appropriateness test, management of instructions and better performance, as well as the provision of suitable information to the clientele concerning the services provided.

In addition, participants were informed of the need to work in setting up reasonable measures proportionate to the size, structure, nature and complexity of the business, as well as the inherent risks.

Lastly, a further target pursued with this letter was to raise awareness of the sector with regard to the impacts of the new regulation which, together with recent regulation on prevention of market abuse and the forthcoming changes concerning solvency requirements stemming from the Financial Services Action Plan, entails a new platform with extremely important implications in the design and management of corporate governance systems, internal control procedures and processes and the organisational structure of participants.

11.1.2. Process of adaptation to the new Capital Adequacy Directive⁹

The new Basle Agreement, which features the new Solvency Directive, together with the take-up of International Accounting Standards (IAC) entails a

7. ISF includes securities broker-dealer, securities brokers and portfolio management companies.

8. Committee of European Securities Regulators.

9. Directive 2006/49/EC from the European Parliament and the Council, dated 14 June 2006, governing the capital adequacy of investment firms and credit institutions.

substantial change in the traditional model for calculation of the minimum shareholders' equity requirements. The new model not only incorporates sweeping changes with regard to this calculation, but also involves the take-up of modern methodology for recognition, appraisal and management of risks, as well as for the prevention of impacts that could bring the viability of participants into question.

The set-up of this new model not only entails a challenge for participants, but also involves a change of supervisory focus in the sense of adopting a methodology based on risk analysis, as mentioned previously.

The CNMV has therefore continue to adapt its internal processes and procedures, as well as coordinate progress with its counterparts through a work group created for the purpose and led by the Bank of Spain. This is for the purpose of achieving a reasonable adaptation procedure of the solvency regulations by the securities brokers, the securities broker-dealers and portfolio managers.

The CNMV recognises that the new Solvency Directive could involve an oversized regulation for the investment services sector, whose supervision falls to the CNMV. The adaptation regulations must therefore not involve a disproportionate cost for participants, but rather must contain reasonable and acceptable minimums to ensure correct transposition of the Directive.

The workgroup created by the Directorate-General of Finance is yet another of the regulatory initiatives in which the CNMV participates. 2006 saw this group make excellent progress, especially in the disciplinary and supervisory transparency procedure. The end result of this work will be a web page with content from national organisations with terms of reference in issues of solvency, through which the regulations, supervisory criteria and results of supervision will be distributed, to help those participants that are involved.

11.1.3 Prudential supervision

If compared with the collective investment sector or with credit institutions that provide investment services, broker-dealers, brokers and portfolio management companies group is small, both with regard to the number of participants as well as volumes of retail investors and turnover. However, solvency supervision continues to require a large assignment of supervision resources and means, both at an individual level as well as at a consolidated level.

In this way, depending on the risk profile each participant is controlled and analysed by a team of individuals that tracks the information received: monthly financial statements (balance sheet, profit and loss statement, complementary information, information on risks), reports from outside auditors, reports on the degree of compliance with the internal control regulations, claims and accusations from investors, etc. The analysis and monitoring task of participants and their groups falls to both remote supervision teams as well as on-site supervision. This enables unification of the analysis and monitoring works carried out in a remote fashion and the inspection tasks carried out on site. As a consequence the ongoing

Supervision of investment services firms: CNMV subpoenas in 2006

TABLE 11.2

Type of subpoena	Actions		
	Remote	On-site	Total
For filing information late	199	—	199
Requesting information	280	157	437
Corrective measures or recommendations	62	54	116
Other disclosure	9	14	23
Total	550	225	775

Source: CNMV.

supervision model is strengthened, viz., the systematic and updated knowledge of each participant and consolidable group.

To complement the aforementioned supervision procedures, in 2006 the participants inspected and found to have deficiencies were required to submit a report on the appropriateness and effectiveness of the measures taken to rectify these, once a reasonable period from notification had elapsed. This report must be issued by the participants' internal control units.

The number of subpoenas sent to participants increased year-on-year due to the increase of those concerning filing information late (see table 11.2). However, the sector enjoyed greater discipline, both in compliance with standards as well as the swiftness in taking up corrective measures. Only one participant was subject to precautionary measures and the revocation of authorisation in 2006.

The results of investment services firms have experienced spectacular growth in 2006 (see chapter 7). The increase of net income through typical activity of participants has contributed to this growth, but the Stock Exchange launch of BME (Bolsas y Mercados Españoles) was also decisive, as several market members had the opportunity of selling their shares, hitherto of a permanent nature.

We must also point to the continued decreasing trend concerning the number of participants with losses, as only 14 companies of a total of 119 hold that status.

Prudential supervision not only analyses the participants' results trend but also places special emphasis on compliance with the requirements of solvency, risk diversification and availability of liquidity. As shown in table 11.3, participants maintained of wide margin of equity surplus over solvency coefficient.

Although situations of breach in global terms reduced year-on-year, we must point out that several portfolio managers breached the capital requirements due to callable surplus equity caused by the increase of managed portfolios.

In addition to individualised supervision, consolidated supervision also takes place. At the close of the last tax year, the sector comprised 51 groups and/or subgroups.

Broker-dealers and brokers: surplus equity over solvency coefficient¹

TABLE 11.3

Regulation and supervision of the securities markets
Market supervision

	Added surplus of the sector ²	Average by entity ³		Number of entities based on margin				
		Amount ²	% ⁴	<50%	<100%	<200%	<500%	>=500%
Broker-dealers	858,443	18,265	419.40	5	6	5	15	16
Stock Exchange	738,177	19,951	412.49	3	5	3	13	13
Non Stock Exchange	120,266	12,027	467.49	2	1	2	2	3
Brokers	118,522	2,079	211.21	13	10	15	9	10
Stock Exchange	19,797	1,980	307.36	2	0	3	3	2
Non Stock Exchange	98,725	2,101	198.75	11	10	12	6	8
Portfolio management companies	16,318	1,088	76.87	5	1	5	2	2
Total	993,283	8,347	352.20	23	17	25	26	28

Source: CNMV.

1. Difference between computable equity and callable equity for the purpose of solvency coefficient.
2. €000s.
3. Average weighted by each firm's required equity.
4. As a percentage of required entity.

Inspections carried out throughout 2006 placed special emphasis on the analysis of associated companies, as well as the possible existence of groups subject to supervision on a consolidated basis by the CNMV and incorporated as portfolio management companies, a new aspect introduced by Royal Decree 1332/2005¹⁰.

Both for this new type of consolidable group as well as for those incorporated as brokers-dealers, the on-site supervision and analysis of the annual reports performed by auditors at the close of the tax year have been seen to be the most effective channels for the determination of the entities that make up the foregoing groups.

10. Royal Decree 1343/92, dated 6 November, which implements Law 13&92, dated 1 June, governing equity and supervision of financial institutions on a consolidated basis, was modified by Royal Decree 1332/2005, which implements Law 5/2005, governing the supervision of financial conglomerates.

Since november 2005, this regulatory change requires the compliance with solvency requirements on a consolidated basis for portfolio management companies as well.

This means if a company whose core activity is the holding of equity participations in financial entities or if a physical individual, a group of physical individuals that systematically act in harmony or a non-consolidable group controls several financial entities, and one of these is a portfolio management company, a new group of investment services firms would be configured, providing also that the portfolio management company is a financial entity with greater relative size.

This means that the portfolio management companies must analyse whether there are any entities associated to their management company, their administrators and their shareholders, and determine whether they ought to notify the CNMV of the configuration of a consolidable group of investment services firms as a consequence of the foregoing.

Moreover, they must satisfy the obligation of submitting the consolidated accounts and management reports to an accounts auditor.

11.1.4 Company structures and cross-border provision of investment services

We would point out that in 2006 one of the concerns with regard to supervision was the creation of parallel-owned structures for the provision, inter alia, of financial services¹¹.

The creation of complex and vague parallel-owned structures pursues the objective of eluding regulatory demands, basically in terms of capital, normally combined with regulatory arbitration between jurisdictions, using those that offer regulatory approaches that are more lax and constantly avoid supervision on a consolidated basis from the country of origin. This gives rise to the coexistence of several prudential supervisors with a partial and fragmented vision of the real financial asset situation of the group and of the risks to which it could be exposed, given that none of them supervises this group fully.

This leads to two kinds of problems:

1. Unfair competition in the rendering of investment services through the creation of “artificial capital” with regard to the structures submitted to full consolidated supervision with their corresponding capital requirements.
2. That the asset risk to which the group is exposed, and the potential domino effect of the transfer of risks between the different group entities also entails a risk to the integrity of its clients’ assets.

All of the foregoing can be aggravated by problems concerning money laundering, especially through structures with subsidiaries in countries whose measures for combating money laundering are not particularly strict.

The CNMV has detected an example of this kind of structure in the financial sector and, more specifically, in some groups from the broker-dealers, brokers and portfolio management companies sector. This means that for the purpose of understanding and properly assessing the size of the structures, the supervision focuses both on associated companies in the authorisation proposals of new entities, as well as the close cooperation with foreign supervisors. This can even lead to non-authorisation or revocation of the Spanish entity’s authorisation when a proper supervision system cannot be applied.

With regard to active cooperation with other supervisors, the bilateral and multilateral contacts that commenced in 2005 have continued through meetings at the FSA headquarters with the American SEC¹² and other European supervisors. The purpose of these meetings was to present the consolidated supervision scheme that the SEC applies to financial conglomerates, to determine whether this is equivalent to the supervision regime set up under European regulations. Five financial groups are currently subject to this system, of which two have subsidiaries in Spain. Ongoing contact has also been maintained with

11. Defined in the *Parallel-Owned Banking Structures* document, January 2003, Basle Committee on Banking Supervision.

12. Securities and Exchange Commission.

other counterpart supervisors in close collaboration in the investigation of complex groups with parallel structures initially supervised in a fragmented and partial manner by the respective source supervisors.

The use of company nets with a parallel-owned structure was also observed with regard to an investment services firm for the performance of a leveraged intraday session transaction. This gets around compliance with the limits of risks and the application of the corresponding requirements of minimum equity required through risks stemming from the corresponding portfolio. In this specific instance, the intraday leveraged operation was brokered through the broker whose articles of association meant they could not carry out this activity on their own behalf, with the subsequent transfer of risks to the system, given that the risk of the open positions during the day was not backed up with sufficient level of capital or the necessary warranties.

Once again we saw that the purpose of this kind of structure is to elude limits and regulatory demands and entails not only a transfer of risks to the system but also unfair competition with entities that carry out similar activities but with a far higher cost in terms of capital, infrastructure, means and control.

11.1.5 Codes of conduct and conflicts of interest

2006 experienced a growing and generalised trend towards greater complexity of products marketed by the financial sector and, specifically, among retail investors. In some cases we also noticed the purchase of significantly complex and not very liquid products for managed portfolios of individual clients. This fact, tied to inadequate identification of each client profile with regard to the risk, as well as the sending of erroneous, poor and deceitful information on their positions, inherent risks and the market price assessment of the portfolio, constitute practices that have been subject to rigorous measures by the CNMV.

For some managed portfolios of clients, we have identified very specific cases of the acquisition of tailor-made structures that consists in the securitisation of assets from other securitisations via special purpose companies whose registered office is in Luxembourg. The issues include both cash structures as well as synthetic structures (credit derivatives of the credit default swap type) as well as collateralised debt obligations and asset-backed securities, even mortgage-backed securities. We also detected cases of acquisition of complex bonds, such as the perpetual issues with returns pegged at swap interest rates, issues whose return is determined in accordance with the curve trend of rates, the zero coupon issues redeemable at the issuer's demand and other structured products whose return is determined in accordance with the evolution of both specific interest rates as well as equity securities.

These products are either not quoted on any market and there is no undertaking of liquidity by the issuer or third parties, or they are securities that may be quoted but have scarce liquidity in practice. The securing of a theoretical value of these assets is really difficult given their complexity and lack of consensus on the applicable appraisal methodology. However, companies do not always have the proper tools to control the risk and properly assess these products.

In some cases this operation lacks express hedging in the signed management contracts as they either do not include the possibility of investing in non-listed assets or they do not match the investor's profile and information sent to the clients does not adequately include the features of these products or their valuation.

Elsewhere, in the marginal cases observed, the put-throughs among clients on these assets were frequent and, when tied to the aforementioned assessment difficulties, entailed an obvious conflict of interest among the entity's clients.

Another fact we observed refers to the increase in the number of entities that depend on retrocessions, through the placing of financial instruments among managed or advised clients, and from which they in turn receive commissions for the rendering of services. Although advice on investments is not a service subject to prior authorisation until the coming into force of the MiFID, we must remember that it is a financial service the provision of which is subject to the codes of conduct laid down in chapter VII of the Securities Market Law, among which are those concerning the management of conflicts of interest.

As a consequence, entities that receive retrocessions of commissions through the sale or placing of products via advice or portfolio management must remember that both activities entail a conflict of interest. This conflict will be more or less detrimental for managed or advised investors in so far as the income through retrocessions received may or may not be determining factors for the business feasibility of the investment services providers. If the income through retrocessions is significant for the entity in relative terms, it would be more difficult to ensure independent advice and portfolio management in the best interest of their clients.

Thus the firms must choose the business model that is most appropriate and profitable, but must always ensure that there is a barrier that separates the duties of loyalty towards the investor and towards the supplier of products through which they receive retrocessions. Both business lines are equally valid separately, but they are subject to different duties and conditioned by different interests when carried out jointly, especially at small firms in terms of capital and business.

It is appropriate to remember that the new regulation resulting from the MiFID has an impact on the relationship of firms with their clients as well as on the existence of proper governance and organisational structures geared at creating a general culture of risk control and specifically control of risks that could harm the market and investors due to the conflicts of interest within the firms and the groups of which they form a part.

In view of the foregoing, the twin approach work that commenced in 2005 for the assessment of design of the organisational structures of supervised entities and their groups has continued throughout 2006: to ensure proper separation between areas liable to generate conflicts of interest and allocate effective internal control instruments to firms by way of an initial level of detection and proper risk management.

In this regard, we must underline the fact that the mere dissemination of conflicts is not the most efficient measure against these, because it is not a real measurement of conflict management and also fails to prevent, in most cases, harm to the investors. On the contrary, the systematic dissemination of information on investment services that are provided under conflict may become a protection measure for firms in the light of possible claims from investors or CNMV intervention.

Concerning the information sent to clients, not only the information referring to services that are provided under conflict, but also the contracts and other information concerning their operations is, frequently, complex and over-standardised. This means that relevant details are not included or made clear, or that admonitions or warnings required to enable the investor to take adequate decisions with regard to their assets are left out.

Finally, Royal Decree 1333/2005 was published in November 2005, implementing the Securities Market Law in issues of market abuse. Among the firms that are subject to the provisions therein are investment services firms. Chapter IV regulates the conditions which must be met for the drafting and presentation of investment recommendations and, in the event, for disclosing conflicts of interest affecting the party making such recommendations.

Insofar as financial analysis activities are concerned, we must mention that although it is not an investment service that requires a licence beforehand, the rendering of this service is subject to compliance with the codes of conduct set forth in Heading VII of the Securities Market Law, article 79.1.g. In view of this, an in-depth review took place in 2006 to look at the appropriate nature of the internal regulations governing conduct, as well as the procedures and controls that firms employ to administer conflicts of interest and the prevention of practices known as dealing ahead, viz., practices that are contrary to the duty to abstain from taking positions on one's own behalf in securities or financial instruments on which the firms are carrying out specific analysis from once their conclusions are known until the recommendation or report prepared in this regard is given.

As a result of the reviews that took place in 2006, we observed control weaknesses through failure of firms to gather proper specifications in their internal code of conduct or carry out a follow-up task of the activity, either with regard to the individuals that carry this out or the securities subject to the duty of abstention, or the periods during which this duty extends. It is therefore necessary to raise awareness in the financial sector that mere dissemination of conflicts of interest is not itself a management and control tool.

In view of this, and taking into account the special relevance repercussion of the analysis service on the financial markets, which not only nourishes end investors but also management companies and other large financial institutions, we need to carry out efforts to improve the organisational mechanisms and control procedures to ensure impartiality and objectivity in the rendering of the financial analysis service. To preserve the quality and impartiality of the financial analysis that is distributed to the market is also one of the core principles of the standards governing proper administration of conflicts of interest imposed through the MiFID, as well as other community standards governing the prevention of market abuse.

11.1.6 Internal control: operating risk, contingency plans and safeguards for continuity in the provision of services

In recent years, both firms as well as supervisors have been paying greater attention to operational risks. Although the firms have always had internal controls and hedging systems to minimise losses through fraud, employee disloyalty, unsuccessful operations, etc., there are a great many firms that are beginning to consider the operational risk as a whole as a category of independent risk.

In view of this, the work schemes of the inspections that are carried out on firms include a review of the contingency, continuity and recovery plans. Generally speaking, we can state that there are currently a great many firms that are still developing processes for the administration of their operational risks, although in most cases the contingency and continuity plans are of incipient and still partial implementation.

We therefore believe it is necessary to actively drive ongoing internal implementation of these controls by having the firms track and assess the latest advances. The CNMV, in a letter sent to all participants last July, therefore included an express reference of the need to have proper management of business continuity as part of the process of adaptation to the MiFID.

We can place on record that the firms are currently aware of the importance of this issue. The next thing to do is to set up the measures in order to be prepared to tackle crisis situations and not only comply with regulations.

In the context of the MiFID, business continuity is considered from the perspective of protecting investors, current and potential clients of the financial institutions.

Given that business continuity has become a key element within global management of operational risks, the regulatory initiatives such as the MiFID, or the demands in issues of operational risk management stemming from the Second Directive of Capital Adjustment based on the Basle II agreements, are being adopted.

The executive recommendations and principles adopted by the Joint Forum are targeted both at firms as well as financial supervisors, that must also manage their operational risks and have plans for continuity of their activities.

Insofar as the changes that the firms must incorporate concerning business continuity, continuity and contingency plans must be approved that ensure the safeguarding of data and essential functions and the maintenance of services and activities or their opportune recovery in the event of any interruption to their systems and procedures. The firms must therefore start to identify what functions must be considered as critical or essential and the determining factors of processing in the plans for management of contingencies and recovery and continuity.

Elsewhere, the MiFID looks at the possibility of outsourcing certain processes at investment services firms, including the investment activity services themselves

as well as auxiliary services and, to sum up, any other procedure required to achieve its objectives. However, it also recognises that subcontracting duties and services could become a source of operational risk with serious implications through contingencies at the supplier that hinder recovery and continuity of service provision.

The supervisory activity implemented in 2006, when the aforementioned directive was not applicable, has enabled us to identify certain financial institutions in the EU that provide investment services in Spain through an outsourcing system that involves subcontracting of almost all of the tasks required for implementation of their activity.

While we wait to find out whether level 3 of the MiFID will include guidelines on outsourcing, the CNMV is looking at whether firms that subcontract services should have sufficient legal capacity to carry these out. This criteria is especially relevant in cases of outsourcing investment services, which will only be able to be subcontracted to firms legally qualified to perform these.

11.2 Supervision of codes of conduct in the provision of investment services by credit institutions

The CNMV has a specific unit to supervise compliance by credit institutions of the codes of conduct in the securities markets. This unit has been implementing a plan geared mainly at supervision of marketing of securities and financial instruments among retail investors. Reviews have already taken place with regard to compliance of the codes of conduct in other areas of activity carried out by credit institutions within the sphere of the securities markets, but their medium- and long-term objective is to set up an integral supervision system for the provision of investment services by this kind of firm.

Although not systematically, 2006 also saw the initiation of actions that encompass both specific investigations based on information received from other departments (claims, accusations, etc.), as well as the transmission of generic action guidelines to all sector firms.

11.2.1 Marketing of financial products by credit institutions

Credit entities play a predominant role in Spain in the marketing of financial products among retail shareholders; products that in recent years have experienced increased complexity. The commercial practices followed in the marketing of products has taken on special relevance in this context, and the investing public must be fully aware of the characteristics and inherent risks of these products.

The supervisory actions in this field focused on an in-depth review of the marketing practices of credit institutions, encompassing analysis of contractual and periodic documentation delivered to clients, the procedures for classifying clients on the basis of their risk profile, the classification of products and determination of the target public for these in accordance with their complexity and inherent risks, the matching of the product to the client profile, the rates

applied, the commercial information provided to the client, the proper transmission of information to the distribution networks referring to new products issued and the educational and awareness actions carried out in this area among other relevant aspects.

Within this sphere, and in the short space of time since the commencement of this kind of review, the CNMV has already seen the large-scale efforts that firms are carrying out in the review of their commercial practices, targeted at providing better and more complete information to their clients. However, a preliminary diagnosis of the general situation of the sector shows that firms should make greater efforts in setting up procedures to find out the risk profile of their retail investors, approve procedures to classify marketed products in accordance with the risk, and implement procedures to adapt the target public to the products to ensure that the product's level of risk is in line with the client's risk profile.

The aspects subject to review take on special relevance if we take into consideration the upcoming transposition to the Spanish legal system of the requirement within the codes of conduct sphere pursuant to the MiFID and subsequent legislation.

This new regulation in an attempt to increase the degree of protection that the codes of conduct guarantee retail investors with regard to aspects such as the establishment of a regulatory classification of clients, the set-up of new information requirements that are both general as well as specific for the marketed products, or the set-up of specific requirements for the firms with regard to clients' knowledge via tests. Here, the CNMV has notified credit institutions of the need to set up adaptation plans in anticipation of the changes that will be required in order to respond to these new regulatory demands.

With regard to the structure of the distribution networks set up by the credit institutions, special attention must be paid to the relevance being acquired by the agent or presenter, given that part of their action falls within the sphere of the securities market. The collaborators or presenters are generally physically individuals that capture clients for a firm although they are not shown on the official records of any supervisor (as would be the case with agents). The traditional stance of the CNMV with regard to this party, which also exists in the investment services firms sector, has been one of considering that their action is really one of the regulated agent. As a consequence, we have requested identification of these collaborators in the pertinent administrative records. The CNMV and the Bank of Spain are working jointly on this matter.

11.2.2 Conflicts of interest in marketing securities issued by the firms themselves

The Commission's experience is that when financial institutions market securities among their retail investors conflicts of interest can arise, particularly when with regard to complex products such as preference shares, warrants or subordinated debt.

Actions are carried out within the sphere that focus on the specific review of the marketing of products with these features that leads to claims or enquiries from

clients to the CNMV. The analysis not only centred on general practices of marketing followed by the company but specifically looked at determining the risk level of the product, the identification of the target public to which the product was aimed and the final adjustment between the complexity and risks of the product and the investment objectives of the public to which the product was brokered.

Moreover, other actions have been implemented that focus on sending generic guidelines to large groups of companies concerning specific operations recorded on the securities markets, or dealing with specific aspects of application of the code of conduct within the securities markets sphere.

With regard to the former type of actions, concerning the suspension of the takeover bid prepared by Gas Natural over Endesa, an unprecedented circumstance to date, the custodians of these shares were sent action guidelines in the formalisation of the applications from investors, in order to protect their interests and avoid a potentially prolonged freeze of their shares.

Action guidelines in the allocation breakdown of blanket orders or without the holder being identified were transmitted for the latter type of actions.

11.3 Supervision of collective investment schemes

Within the scope of the collective investment schemes (IIC), the core objectives of supervision, regardless of whether these objectives are supervised in a remote fashion or on-site, are the following:

1. Verification of compliance with the regulations of a prudential nature (legal coefficients and investment in suitable assets). The collective investment scheme regulations restrict the discretionary nature of managers in certain spheres, by setting up minimum requirements of diversification of portfolios, thus limiting the kind of assets for investment or including another kind of operating limitation. Verification of compliance with these restrictions is one of the basic aims of the supervision that these institutions are subject to.
2. Conflicts of interest. The IIC outline set up in the Spanish market, in which the managing company and the fund custodian belong to the same economic group in the majority of cases, implies a range of potential conflicts of interest arising in which the decisions of the IIC managing companies must ensure they exclusively cater to the interests of their shareholders or partners. The regulations encompass a set of rules (the regime of operations with associated parties, separation of the manager-depositary and other group companies, codes of conduct) aimed at ensuring proper protection of the IIC investors' interests, and correct compliance is one of the key targets of the supervisory activity in this sphere.
3. Check of sufficient methods and available internal controls by the companies. The source of most of the situations of potential risk identified in the supervision of collective investment schemes is the lack of sufficient technical and staffing means to correctly carry out the duties and obligations attributed through the regulation. The availability of these means therefore constitutes

a requirement to remain on the corresponding records, both for the IIC managing firms as well as for their depositaries or self-administered investment companies.

4. Adequate information sent to the investor. The possibility of carrying out specific operations is ever more generalised in the IIC regulations, providing that proper information is seen to be sent to the investor (use of derivative products, markets in which to invest, investment in unsuitable assets, duplication of commissions in the fund of funds, etc.). Because of this, the supervision to ensure that the information provided to the investor concerning these areas is correct, sufficient and delivered in time, takes on great relevance in ensuring their effective protection (together with actions aimed at educating the investor to understand and accept this information).
5. Verification of correct action of depositary companies. A key figure in the government of laws of the collective investment schemes is the depositary company. The Spanish regulations provide this figure not only with the typical duty of safeguarding assets but also supervision to ensure that the action of the management companies (SGIIC) is in line with what is legally allowed in certain especially sensitive areas (calculation of the redemption unit value, flows of funds linked to subscription and payout operations, operations of market prices, compliance of coefficients and accuracy of information provided to the CNMV).

The CNMV has set up two complementary supervision linchpins (remote and on-site) to verify and correct compliance with these aims. In 2006, 1441 letters were sent to supervised companies as a result of the supervisory actions carried out.

Of these, 643 were subpoenas for information filed late. Considering the number of companies written to and the frequency of duties to provide information to the CNMV, including periodic reports, audits, confidential filings, reports on the degree of compliance with the internal control rules and, for the very first time since last year, a report on compliance of the rules of separation between manager and depositary in cases where both companies belong to the same economic group, we can state that the degree of compliance within the established deadlines is high.

Elsewhere, 541 letters requesting information required for supervision (other than information available of a general nature) were sent to affected companies and 227 requesting firms to adopt improvements. Most of these correspond to the analyses carried out by the CNMV, which is explained by the stance of these analyses (a single aspect for many companies was studied) and through the fact that these were

Supervision of IIC subpoenas issued by the CNMV in 2006

TABLE 11.4

	Remote	On-site	Total
For filing information late	643	-	643
Requesting information	422	119	541
Corrective measures or recommendations	145	82	227
Other disclosure	10	20	30
TOTAL	1,220	221	1,441

Source: CNMV.

carried out away from the company's head office (which requires more written information to be requested than for those analyses carried out at the company).

Hedge funds (IIC de IL)

One of the most significant new aspects of the IIC Regulation was the introduction of the hedge funds¹³. These institutions, which require a minimum investment of €50,000, and the marketing of which can only be to professional investors, were exempt from compliance with a large part of the rules governing ordinary IIC, in light of the characteristics of the target investor. To sum up, this was an attempt to incorporate the figure known internationally as a hedge fund - an instrument characterised by its broad investment liberty - into the Spanish legal system.

Simultaneously, in order to facilitate access by retail investors, the IIC regulations introduced the funds of hedge funds at the same time, in the search for suitable diversification of the risk through investment in several funds. This would make the product more suitable for investors that require a greater level of protection.

The most relevant features of the hedge funds are the possibility of investing in any assets and financial instrument and in any derivative regardless of their underlying nature, being able to apply cash leverage of up to five times their units' value.

The subscriptions and payments are likewise made with the same periodicity as the calculation of the redemption unit value, at least quarterly. However, this calculation can be every six months and may even not grant the right to payment of the redemption unit value on all calculation dates. Elsewhere, a maximum limit of the amount to be paid on each date can be set and a system of free alerts of subscriptions and payments that is more flexible than the general system.

The funds of hedge funds, which will be characterised by investing at least 60% in hedge funds, with a maximum of 10% in each one, are also exempt from the maximum limits of commissions and are subject to a system of subscriptions and payments not unlike the one of hedge funds, with a few differences. The Regulations forbid investment in other funds of hedge funds.

The arrival of these investment opportunities through regulation in the Spanish legal system, and the need for the CNMV to implement the most technical aspects of the IICIL and hedge funds, led to the creation at the CNMV headquarters of a work group to focus on the hedge fund sector for the purpose of gathering responses in light of the implementation challenges thrown down by the new industry. In this regard, the work group acted as a forum in which different parties in the sector gave their corresponding points of view.

13. In March 2007 Royal Decree 362/2007 was issued which amended the IIC Regulation, basically with regard to the hedge funds and funds of hedge funds.

Finally, following approval of Order EHA/1199/2006, dated 25 April and targeted at allowing hedge funds to be fully included within the legal system, Circular 1/2006, dated 3 May was approved, issued by the CNMV, for the purpose of completing the regulatory regime. Inter alia, the Circular regulates the organisational and risk control means of the management companies, the dealings with companies that provide funding and other services to hedge funds (known as prime brokers), the selection of underlying funds in the funds of hedge funds and the obligations of transparency with regard to investors in hedge funds and funds of hedge funds.

Lastly, it is appropriate to place on record that the CNMV, in collaboration with other companies, is analysing the systematic risks that hedge funds entail with regard to risk prevention for the stability of the financial system. Given the non-existent experience in Spain on the operation of these IICs, there is still no quantitative information on the size of these risks.

In any case, the CNMV continues to collaborate in the risk prevention measures analysis of the systematic risk, based initially on the need to harmonise the regulatory and supervisory processing of hedge funds in different countries. The following preventive measures should be behind this principle of harmonisation: promotion of better risk management of financial institutions, promotion of transparency in the sector with regard to investors and the regulators, international cooperation between supervisors and, lastly, transparency and suitable guarantees in the marketing of the product¹⁴.

11.3.1 Supervision of prudential requirements regarding IICs and their management companies

Legality control

As with every year, one of the basic objectives of the supervisory tasks carried out within the sphere of the IIC is verification of compliance with the legal coefficients, some of which have been amended with the publication of the new IIC Regulation¹⁵.

Here, and as with previous years, special attention has been paid to compliance with the asset requirements and partners in investment funds, and capital and shareholders within the sphere of the SICAV, including verification of the limits of trading with own shares. Compliance with liquidity coefficients was also checked (it is these coefficients that guarantee the availability of sufficient liquidity to cater for reimbursements so that it is not necessary to make divestments not justified by management criteria), as was compliance with the diversification coefficients and legal limits provided for transactions with derivatives.

14. See chapter 6, section 6.1.2 on the risks of hedge funds.

15. Royal Decree 1309/2005 implementing the Regulation of Law 35/2003, dated 4 November, governing collective investment schemes.

At the same time, and following review of the notifications of incidents periodically received from depositary institutions, compliance by depositories with their obligations to supervise and monitor IIC management companies was also checked.

Within the periodic reviews carried out by CNMV for the purpose of checking compliance of the obligations established for the IIC, special attention is paid to the duty of sending audit reports and annual accounts to the CNMV as these are vital for the purpose of carrying out the supervisory duties commissioned. Breach of the obligation to audit annual accounts has been verified with certain SICAV.

The current regulations set forth a series of hypotheses in which the CNMV could insist on revoking the authorisation granted to an IIC, including the existence of difficulties to obtain the necessary information for proper performance of the supervisory duties.

Elsewhere, the regulation concerning SICAV sets forth a deadline of one year for the reconstitution of capital in the event that this capital is below the statutorily established minimum. Once this deadline has elapsed without the capital being reconstituted, the entry in the administrative records will be cancelled.

In this context, the CNMV carried out specific analyses in order to identify companies that could be faced with this hypothesis and, as a consequence, processed three revocations of authorisations.

Solvency of the management companies

Monitoring of the economic-financial situation of companies has continued in order to anticipate possible solvency problems. Different criteria are considered in order to carry out this analysis, including the lack of shareholders' equity or highly reduced percentage of book assets of the share capital, the analysis of the profit and loss statement (amount of losses and source of the same and obtaining profits through activities other than the SGIIC usual activity), the time that the SGIIC would take in presenting lack of shareholders equity or asset imbalance through losses or large increases of callable shareholders' equity and analysis of the activity reduction through decrease of managed assets.

Analyses are also carried out on compliance with the legal coefficients and the adequate nature of organisational means to carry out their duties.

11.3.2 Conflicts of interest

Several analyses have taken place this year on the placement of securities in which a company belonging to the group of the management company has taken part as underwriter or broker, for the purpose of detecting possible conflicts of interest.

Moreover, several analyses were carried out on the investments that the IIC hold in securities that are the object of a takeover, in which the group companies held relevant positions, and the subsequent trend of their portfolio securities. No regulatory breach was observed in any of the cases.

With regard to the rules of separation between the management company and the depositary, from the coming into force of the new IIC Regulation, the management companies whose managed IIC have a depositary company that is a company that belongs to its same group must have a specific procedure to avoid conflicts of interest. An independent commission must also be created to take charge of compliance with these measures and to prepare an annual report on the aforementioned compliance. For the first time this year, this report was the object of supervision, in order to detect incidents that could be relevant for the CNMV's work.

A further important aspect concerning conflicts of interest of the SGIIC that were the object of analysis in 2006 was the investment that the IIC make in other IIC managed by the same management company. We analysed whether the investment is made in IIC with lower management and deposit expenses from among those that are accessible to the investing IIC through investment volume, in accordance with the demands of the prospectuses, in cases in which there are different IIC with identical investment policies that in daily practice entail identical investment decisions.

Similarly, and taking into account the range of products to which a client has access through the volume of their investment, we checked whether the marketeers offer funds with better economic terms. Otherwise, and in situations where there are products with an identical investment policy that differ only with regard to the level of costs, the interests of the SGIIC or the marketeers (in the Spanish market, usually belonging to the same financial group) may be taking precedence over those of the client, for the purpose of carrying out operations that increase the commissions received.

Investment of the IICs in other IICs: Retrocessions of commissions

Article 5 of the IIC Regulation lays down that all revenue or returns associated to or obtained from an investment fund must be attributed to the fund as a separate asset investment. Likewise, the attributed commissions and costs, which are shown in the aforementioned regulation, must be removed from the fund. More specifically, the management and deposit commissions are limited (subject to capped limits except in the case of the hedge funds or funds of hedge funds) and to other expenses listed in the prospectus, providing that these are for services effectively rendered to the fund and which are essential for the standard performance of their activity.

We can therefore conclude that those practices through which a group company belonging to the management company of the fund is the beneficiary of the retrocessions of commissions generated by the investment of funds managed in other IIC is contrary to current regulations. To sum up, the aforementioned practice involves the attribution of an overspend on the fund, or deprives it of revenue, which is contrary to current regulations.

Elsewhere, this obligation of attributing the retrocessions of commissions through investment in other IIC to the investment funds is in line with regulatory trends of European countries.

Likewise, from the point of view of the foregoing regulations and the obligation of the IIC management companies set forth in article 46.2 of Law 35/2003 to act in benefit of the partners or shareholders of the IIC whose assets they manage, does not allow the practice of investing in types of equity shares for the purpose of higher management commissions, when the volumes invested could be used to buy cheaper or institutional types with lower management commissions, except if the net commission paid by the investment fund is equal to or higher than would have been paid had an investment been made directly in the corresponding cheaper series.

The CNMV sent a reminder to management companies with regard to the applicable regulations in this sphere. In 2006 we also checked the proper compliance with these precepts and, following the corresponding supervisory actions, we can state that throughout the collective investment sector, the retrocessions are being attributed to the investment funds in the IIC that generated these retrocessions. With regard to the investment in cheap/expensive series, we also checked investment in cheaper series by Spanish IIC, providing access to these is feasible through volumes or through the retrocession of commissions, if these exist it does not offset the differential of commissions between series.

Lastly, and with regard to the SICAV we must point out that, unlike the funds, the costs are not set and the commissions can be freely set, and the question must therefore be focused from the transparency point of view. The board of directors and general meetings of shareholders of the SICAV must therefore be notified when the retrocessions of commissions are received by a group company of the SICAV management company instead of by the other party. The supervisory actions of the CNMV also verified satisfactory compliance with these duties.

11.3.3 Corporate governance, resources, procedures and internal control

The basic objective of the reviews within this sphere is to verify whether the organisational structure of the management company analysed, both internally as well as through their relationship with third-party companies, basically of the group, is capable of preventing the multiple potential conflicts of interest that could arise, in order to ensure that the decisions of the SGIIC are taken in the exclusive interest of their shareholders or partners.

More specifically, reviews of the organisational structure focus on the following analyses:

1. In the case of companies or groups of companies that provide services concerning the securities market, verification that there are measures to prevent the flow of insider information between different areas of activity, in particular, the proper separation barriers between the areas that the LMV defines as separated areas have been set up.
2. Compliance with the rules of separation between the management company and the depositary, especially when both companies belong to the same financial group.

3. Segregation of duties at the SGIIC headquarters to ensure separation between the management, administration and control duties.
4. Independence of the different control units and bodies and specifically of the control unit commissioned with ongoing review of procedures and systems of internal control, of the organisation responsible for monitoring the associated transactions in charge of confirming that the requirements for carrying out associated transactions are complied with (viz., that these are carried out in the exclusive interest of the IIC and at prices or under terms that are the same as or better than market prices or conditions) and of the organisation set up to verify compliance with the separation of the depositary.

A basic part of the on-site inspections carried out at the SGIIC is the analysis of whether these companies have procedures to ensure proper internal control of their activities, as well as the access and safeguarding mechanism of their computer means.

During 2006, a variety of companies amended their articles of association of their statements of activities for the purpose of enabling discretionary and individualised management of third-party portfolios and the marketing of shares and equity shares that they manage such as, if applicable, of other IIC. The reviews carried out logically analysed whether the existing measures are sufficient to carry out and control these activities properly.

We also reviewed the situation of those SGIIC that delegated some of their duties with regard to the IIC they were in charge of managing, to check that this delegation did not turn the management company into an instrumental company or rendered it null and void, and that adequate control procedures of the activity of the delegated company were in place.

As in previous years, the procedures of allocation of profits continues to be analysed through the on-site supervision performed by the CNMV. Specifically, we analysed whether the SGIIC have procedures to prevent possible conflicts of interest that arise when, in line with the practice of some markets, a management company that administers several IIC transmits a blanket order to the market or fails to identify the IIC on whose behalf they are operating.

For the purpose of reinforcing the need to have this kind of procedure in the sector, we wrote to all the SGIIC reminding them of the rules to be complied with¹⁶, likewise telling them that the Regulation had ratified the enforceability of these rules, expressly demanding that companies include *“internal control procedures to*

16. The rules are the following:

- The investment decision in favour of a specific IIC must be taken prior to the issue of the order to the broker and, as a consequence, prior to the result of the operation being known.
- The IIC managers must have pre-established criteria of distribution or breakdown of blanket orders that are based on the principles of equity and non-discrimination.
- Compliance of the foregoing requirements must be proved in a documentary fashion, in a way that is objective, verifiable and cannot be manipulated.
- Those guidelines should be incorporated into the internal control procedures approved by the management company's board of directors and, consequently, their compliance should be reviewed by the body in charge of internal control.

justify that the investment decisions in favour of a specific IIC or client is adopted prior to the issue of the instruction to the broker” in their internal codes of conduct”. Moreover, “they must have pre-established criteria and objectives for distribution or breakdown of the transactions that affect several IICs or clients, that ensure the equity and non-discrimination between these”¹⁷.

With regard to analysis of returns, the procedure taken to detect atypical returns involves using a benchmark daily index for each IIC, in order to obtain a theoretical return from each institution. By analysing the differences that exceed a specific number of typical deviations, the redemption unit values to be analysed are selected.

The allocation of a benchmark index is carried out on the distribution base of the assets and the amended duration of the cash portfolio of each IIC, information is obtained from the qualified statements. The daily theoretical returns for each institution are obtained using regression techniques between the selected index and the real return of the fund.

The purpose of this analysis continues to be the detection of deficiencies in the internal procedures and controls of the management entities. A specific procedural control is rated as deficient when repeated atypical returns caused by the same mistake are detected: bookkeeping, by valuing a specific type of asset or incorrect attribution of expenses. However it is necessary to bear in mind that an institution may have attained a return rated as atypical through the makeup of its portfolio or through the operations carried out that day, or due to a specific error in the bookkeeping or appraisal of an asset. In the latter case the impact on the patrimony is quantified and, if this is significant or has affected shareholders, the management company will be asked to adopt measures to resolve this.

This analysis has also enabled regulatory breaches to be detected, as an atypical return may be due to investment in unsuitable assets or to breach of the institution’s investment policy.

In so far as the valuation of assets is concerned, the IIC Regulation sets forth that investments in equity assets in which there is no market price that represents interest rate trend, of the credit risk of the issuer, etc., must be valued through a theoretical price calculated by the company.

Obtaining an alternative valuation price entails ever greater difficulties as a consequence of the complexity of the features of equity issues that currently exist in the market: convertible bonds, securitisations, structured over rates of interest (with early redemption options, or with variable coupons depending on the issuer’s rating, that include caps and floors, etc.), preferential shares, structured over equity securities, etc. This has led to a valuation analysis that centres on obtaining information on the valuation procedures that the different management agents use.

Information on alternative valuation procedures for this kind of investment was therefore requested over the year from management companies with the highest

17. Article 98.2 of the Regulation which implements Law 35&2003, dated 4 November, governing the IICs.

volume of managed assets. More than 85% of the portfolio fixed-income securities of the IIC were included.

A specific analysis took place to check that the put throughs carried out between IIC were in accordance with the system governing associated transactions pursuant to article 67 of Law 35/2003. No decisions benefiting some funds in detriment to others were detected. Moreover no damages whatsoever for the investor were detected, or situations involving conflicts of interest in favour of third-party companies linked to the management company, and we therefore conclude that the reason behind this operation corresponds to management decisions that match the risk profile and the investment policy of the IIC.

As shown previously, this operation is considered as an associated operation pursuant to article 67 of the IIC Act, which means that the management company also defined a formal internal procedure, laid down in their internal code of conduct, to ensure that the applications are carried out in the sole interests of the ICCs under prices and conditions that match or are better than market conditions.

This analysis revealed that almost all of the management companies consider put throughs between IIC as an associated operation. However the procedures established for their approval are those set up for repetitive or recurrent operations. The management companies have therefore been requested to include this kind of operation as part of the non-repetitive procedures and to also define procedures to enable proof that these operations are carried out in the interest of both IIC.

Because of its nature, the investment policy is one of the key elements of IIC performance and, in accordance with the provisions set forth in article 22 m) of the RIIC, this must be included in the institutions' prospectuses. We therefore analysed three specific issues concerning the investment policy: the trading operation, the investment in securities with low capitalisation and investment in fixed-income securities with low credit rating, for the purpose of checking that investors are provided with correct information through the description of the operation carried out and the risks involved in the corresponding section of the prospectus.

The analysis of the trading operation consisted in a review of the buy/sell of equity securities throughout a specific period in order to assess those cases in which these operations represent high percentages of the IIC assets and of which there is no allusion in the prospectuses. The peculiarity of this operation and its possible impact on the volatility of the redemption unit value means that investors must be properly informed in the corresponding section of the prospectus.

In a parallel fashion, we analysed those institutions with heavy investments in securities with low capitalisation and in assets with low credit rating in order to find out if this possibility had been described in the respective prospectuses. Investment in low capitalisation securities could possibly increase the liquidity risk incurred by the institution, while investment in assets with a low credit rating could imply the acceptance of a high counterparty risk. Both circumstances must be properly explained in the prospectus.

The results of the analysis lead us to conclude that investor information, apart from specific cases, is adequate.

11.3.4 Investor information

The IIC regulation provides that auditors' reports and annual accounts must be sent to the CNMV. That information is complemented with the auditors' recommendations and the report on the degree of compliance with the internal control memorandum. All these documents are essential to enable the CNMV to carry out its supervisory functions. Special attention has therefore been paid to the review of their form and content, as well as compliance with the established presentation deadlines.

11.3.5 Supervision of IIC depositaries

As with previous years, in 2006 the CNMV supervised the activity carried out by the IIC depositaries, especially with regard to their duty to vigilance of the management of SGIIC pursuant to the regulations, for the end purpose of fostering the creation of suitable and independent organisational structures of the management company.

The focus of remote supervision was modified in 2005, due to the large increase of incidents notified to the CNMV by the depositaries. Along with this new focus geared fundamentally at the review of qualitative aspects, we have continued to carry out on-site reviews in coordination with the Bank of Spain.

In line with previous years, a number of informative sessions on the function of the IIC depositaries took place, in collaboration with different companies or associations of companies. There was also a series of meetings held directly with representatives of IIC depositaries to clear up regulatory issues and set criteria with regard to their assigned function.

The existence of effective measures of separation to prevent conflicts of interest when the management company and the depositary belong to the same group was also subject to special analysis within the sphere of on-site reviews and with regard to corporate governance of the SGIIC.

11.3.6 Supervision or real estate IICs

In 2006, the periodic supervision of the real estate IIC was carried out within the scope of the regulatory coefficients to be satisfied by these institutions and the appraisal of their portfolio real estate.

The real estate IIC have to satisfy a series of investment coefficients that limit the risks stemming from certain investments (such as leverage in the purchase of purchase options, obligations of future payouts through purchase of real estate via undertakings or at the construction stage, concentration in specific properties, purchases from group companies) or denote the inherent characteristic of those institutions (minimum investment coefficient in real estate). As well as the foregoing, their obligations with third parties, the percentage of real estate they can lease to shareholders or partners or to a single group are restricted and, in the case of the real state funds (FII) and in months where there is a payment right, they must satisfy the liquidity coefficient of 10% of the assets.

There has been generalised compliance with the foregoing coefficients. In particular, the FII hold high percentages of liquidity partially propitiated through the regulation that allows them a period of two years to make investments resulting from new contributions. This deadline has been increased, from the initial 6 months allowed in 1997, to 12 months and subsequently 24 months from the coming into force of the new IIC Regulation. The increased entries of funds as well as the extended deadline has led to higher positioning of the FII in repos and government bills, which reflects their higher coefficient of liquidity at par with compliance with the obligatory coefficient of investment in real estate.

With regard to valuation, although the supervision of appraisal companies is a task commissioned to the Bank of Spain, compliance with the provisions applicable to the valuation of portfolio real estate of the real estate IIC falls to the CNMV (article 15 of Royal Decree 775/1997). This supervision is based on the appraisal certificates of each valuation performed that they send to the CNMV. Throughout 2006 we continued to place emphasis on the analysis of atypical gains, in the use of proper valuation methods or the influence of possible warnings or conditioning factors presented by the appraiser on the value of the real estate. The supervision performed revealed possible improvements to the real estate valuation rules. As a result, and taking into account the modification proposal of Order ECO/805/2003 on valuation rules of real estate and specific rights for certain financial purposes, those improvements have been introduced along with certain requests made by the sector.

11.4 Supervision of venture capital & private equity firms

In view of the characteristics of venture capital & private equity firms and the profile of their investors, supervision is limited to reviewing their annual accounts and analysing legal coefficients based on confidential filings. However, this latter task is hampered by the absence of lower-level regulations governing the method for calculating those coefficients.

11.5 Supervision of securitisation fund management companies

The asset securitisation sector in Spain has extremely defined characteristics: high rates of growth of the securitised assets since 1999, small number of companies in the sector with workforces growing at a healthy rate and almost no regulation of the activity. Elsewhere, the administration of securitised funds entails operational risks that must be properly managed and mitigated through adequate internal control systems and via the automating of fund management and administration tasks.

Since the supervisory activity of securitisation fund management companies (SGFT) began in 2002, on-site inspections have taken place at seven of the eight management companies filed with the CNMV registers.

The reviews, which concluded with individualised subpoenas to each entity following the inspections, focused on checking that the companies:

- Hold the exclusive corporate purpose of formation, administration and legal representation of both the asset securitisation funds as well as the mortgage

securitisation funds, exercising representation in defence of the interest of the securities issued and charged to the funds.

- Comply with the codes of conduct set forth in the securities market legislation.
- Have excellent administrative and bookkeeping organisation, as well as proper internal control procedures.
- Have sufficient means to carry out their activity.
- Control compliance of the general conditions agreed at the time of setting up the funds, especially those concerning credit rights assigned by assignors.

The supervisory actions carried out have led to an improvement in the allocation of both technical as well as human resources, and in the definition of procedures in which the entire processes are detailed, especially within the sphere of internal control.

The bolstering of the organisational structures of the SGFT is a particularly relevant objective, because although the securitisation is not sold, for now, to retail investors but rather targeted mainly at the foreign institutional market, the reinforcement of the sector in Spain is key to maintaining the prestige and the confidence of professional investors in our market. In a similar fashion, given that the future regulations will enable the synthetic securitisation, the future collection rights and open funds, the SGFT must have suitable organisational structures to manage these new activities.

11.6 Assistance in the prevention of money laundering

In 2006, as a result of the collaboration between the CNMV and the Executive Service of the Commission for the Prevention of Money Laundering and Financial Offences (SEPBLAC) several disclosures were sent to this organisation with the results of the conclusions of the inspections carried out in application of the work schedule set forth in the Cooperation Agreement.

SEPBLAC was also notified of different operations suspected of being linked to money laundering.

The Cooperation Agreement signed with SEPBLAC is currently at the review stage in view of its adaptation to the new regulations governing the prevention of money laundering.

12 Investor assistance

As a result of the Securities Market Law, the CNMV is responsible for investor protection. Generally speaking, it does this through the exercise of its terms of reference in issues of supervision, inspection and distribution of information.

The development of the investor area represents a priority for the CNMV in light of the growing participation of retail investors in the markets and the Markets in Financial Instruments Directive (MiFID) set to come into force shortly and which will entail a substantial modification of the regulatory framework of investment services. We should point out in this regard that the Management of Investors has ceased to be included within the General Management of Markets, in order to reflect its horizontal nature. A strategic action plan in this area for forthcoming years is currently being designed, the main initiatives of which are listed in section 12.1.

12.1 Development of the investor area: a new approach to investor protection

As mentioned, the CNMV is working on the design of a strategic plan that will encompass its actions in investor protection issues over forthcoming years. In line with the current predominant focus among regulators of the most advanced markets, the plan places special emphasis on essential aspects to enable investors to understand and assess the risks to which they are exposed.

The plan looks at improvements and initiatives within different spheres:

- Better information from the CNMV, especially by using the possibilities offered by Internet as far as possible.
- Transparency of financial institutions, improving the quality of both commercial and compulsory information (pre-contractual, contractual and post-contractual) that companies must supply to their current or potential clients, as well as the dissemination and delivery conditions.
- Better quality of the supply of investment products and services from the investors' point of view. Active participation in the process of adaptation to the MiFID has therefore been pencilled in, especially concerning those aspects that concern the reinforcement of the codes of conduct that govern companies' dealings with their clients. Key aspects include personalised advice, assessment of the appropriateness and suitability of products and services, better performance and training of distribution networks (see the attached box).

- Transparency and good governance of listed companies, from the perspective of defence of retail investors' rights.
- Bolster the educational activities targeted at current or future investors. The plan will therefore include initiatives targeted at facilitating basic financial education in secondary teaching.
- Improve the channelling and clearing up of enquiries, claims and complaints from investors, as well as participation in the development and effective performance of the European network, called Finnet, which deals with intermediation and arbitration in resolving claims, which represents one of the initiatives in this issue, and which is especially important in the single financial services market.

This putting into practice requires close collaboration with other national organisations of financial supervision, particularly with the Bank of Spain, given the influence of credit entities in the provision of investment services. The cooperation of other foreign supervisors will likewise be required.

Lastly, we must point out that the plan will focus on the integral management of risks, and an analysis on the Spanish consumer's degree of awareness and risk aversion with regard to investment products and services will be carried out to obtain proper identification of these risks. This information will enable risk indicators to be set up, whose ongoing analysis and tracking will prove useful in the design and adaptation of policies and initiatives designed to protect the investor.

Reinforcement of investor protection in the Markets in Financial Instruments Directive (MiFID)

In this context, the upcoming MiFID and its implementation will bring with it a substantial change in the regulatory framework applicable to the provision of investment services.

The MiFID has a broad scope: all individuals and companies that operate on the securities market will be affected. It will change the structure of the markets and will affect the manner in which investment companies operate, their organisation and how they deal with clients.

It represents the definitive boost for the creation of a single market of financial services through the levelling of access conditions for intermediaries throughout the European Union. This, combined with reinforcement measures of organisational requirements and codes of conduct, and the regulation of personalised advice on investments, will improve the overall quality of investor protection, especially with regards to the retail investor.

In essence, personalised advice on investments, which to date has been freely given in our country, will become an investment service that requires a licence. It is therefore not only subject to codes of conduct but also to organisational requirements, mainly geared at preventing risks of causing harm to clients resulting from conflicts of interest in the provision of these services.

Among the operating rules, the classification of clients and the obligation of financial brokers to adapt their range of products and services to the profile of clients will have a special impact. This aspect will have a special effect on the distribution of investment funds, which to date is the main investment product targeted at retail investors:

- For the first time in our legal system, the regulation offers a modulated application of the codes of conduct, viz., these are gradually put in place in accordance with the type of client at which they are targeted, in an attempt to adapt these to the characteristics and protection needs of each category of investor as far as possible. Clients considered as retail, unlike professional, are set to receive the highest level of protection.
- The MiFID will require companies to adapt their range of products to the profile of each investor, taking into consideration their knowledge and experience in order to take their own investment decisions and to correctly assess the inherent risks of these decisions (known as the appropriateness test). Viz., not only is proper information and transparency required but also an active role by the product distributors, who must assess the risk profile of the investor at which these are targeted in order to offer them products that match this profile.

In turn, the MiFID introduces a new regulatory and supervisory focus, shared with other contemporary rules, based on internal management of the system risks, particularly risks that are detrimental to the market and investors. This focus centres on preventive aspects and represents an across-the-board application to all kinds of financial institutions, regardless of their size, structure and business complexity.

The MiFID requires all market participants to adapt: companies, markets and also supervisors. The recent decisions of the CNMV targeted at reinforcing and strengthening the area of investors within the CNMV and the already-mentioned process of adaptation of the supervisory practices must be included within this process (see chapter 11).

12.2 Investor Assistance Office

As part of the Investors Directorate, the Investor Assistance Office helps investors to resolve complaints and responds to queries.

The service seeks to resolve possible complaints made by the investor when they believe their interests or rights have been harmed by the action of a securities market operator. The conclusions and most relevant criteria stemming from the analysis and resolution of queries and complaints are disseminated to enable widespread knowledge both by the operators as well as investors.

The Investor Assistance Office also answers queries and provides information to investors concerning regulations, products and services available on the securities market and on the legally recognised rights that investors have. Queries can be

lodged through different channels and may refer to simple issues concerning the CNMV registers or information available through the Web and its publications, or may require the participation of CNMV staff members that specialise in different aspects, or a report from other directorates of the CNMV.

Both complaints from investors as well as enquiries that are channelled and resolved through the Investor Assistance Office represent a valuable source of information from the point of view of the CNMV's supervisory actions of both the markets and the financial institutions. The Office therefore maintains close contact with the units that hold supervisory terms of reference, both to get their opinion when it comes to sorting out complaints and enquiries as well as to provide them with quantitative and qualitative information.

12.2.1 Investor complaints to the CNMV

One of the main duties of the Investor Assistance Office is to resolve claims lodged by investors where they believe that their interests or their rights have been harmed by the action of the financial entity. In these cases, investors can visit the CNMV, which will issue a report for the respondent when, despite having filed a claim initially with the company, this has not been resolved to their satisfaction or within a deadline of two months.

If the case in question does not fall within the terms of reference of the CNMV, it will be forwarded directly to the competent organisation or the investor will be informed of where to go.

Overview

Table 12.1 includes the figures corresponding to all complaints presented throughout the year, as well as the total number of those resolved from 1 January to 31 December, regardless of the year in which the procedure commenced.

In 2006, 84% of complaints were resolved within a maximum period of 4 months from being filed with the CNMV. The average response time to the 766 complaints analysed was 82 days.

Number of complaints filed and processed in 2006		TABLE 12.1
	Number of complaints	
In progress at the close of 2005		156
Presented in 2006		823
Total		979
Analysed		766
Resolved		549
Claim not accepted		217
In progress at the close of 2006		213

Source: CNMV.

The number of claims not admitted in 2006 increased over the previous year (see table 12.2), due to the application of the requirements established for acceptance for processing in Order ECO 734/2004 and in the procedure implemented by the CNMV for due compliance. The most regularly breached requirement is that of prior presentation to the company's ombudsperson.

We must also highlight the decrease of the number of resolved claims without any formal announcement on the background of the issue. This decrease reflects greater efforts at the case procedural stage in order to obtain information required to issue a report that assesses the object of the claim.

Comparative distribution of claims according to type of ruling

TABLE 12.2

	2005		2006		% Chg.
	No.	% total	No.	% total	
Resolved	609	80.8	549	71.7	-9.9
Favourable report	169	22.4	171	22.3	1.2
Unfavourable report	294	39.0	298	38.9	1.4
Report without official announcement	48	6.4	5	0.7	-89.6
Resolved by mutual agreement	89	11.8	64	8.4	-28.1
Claim withdrawn	9	1.2	11	1.4	22.2
Not resolved	145	19.2	217	28.3	49.7
Competence of other organisations	41	5.4	28	3.7	-31.7
Lack of requirements	104	13.8	189	24.7	81.7
Total	754	100.0	766	100.0	1.6

Source: CNMV.

The companies that received most claims are credit entities - banks, savings banks and credit cooperatives - due to their greater participation in channelling securities market operations of retail investors, especially in the marketing of financial products. Of the 85 entities that received claims, 68 were credit entities, 13 investment services firms and 4 were management companies of collective investment schemes (see table 12.3 for a breakdown by type of ruling against entities).

Type of entity against which claims are brought and type of resolution

TABLE 12.3

	Reports favourable to claimant		Reports not favourable to claimant		Resolved by mutual agreement and withdrawn		Report without official announcement	
	No.	%	No.	%	No.	%	No.	%
Credit institutions	164	31.4	281	53.8	73	14.0	4	0.8
Investment companies	4	18.2	15	68.2	2	9.1	1	4.5
IIC management	3	60.0	2	40.0	0	0.0	0	0.0

Source: CNMV.

Among the credit entities, 18 were subject to 5 or more claims that were resolved (see Statistical Annex IV.2) and 8t entities exceeded 15.

Most frequent claims

The claims resolved by the CNMV in 2006 can be classified into two large groups: Those that reflect incidents concerning the rendering of investment services (58.8% of the total) and those that refer to investment funds and other collective investment schemes (41.2%). We can therefore point to maintenance of the general outline of issues subject to claims with regard to previous years, although with a slight drop of incidents concerning collective investment schemes and a significant upturn of those concerning securities transactions.

Comparative distribution of claims by issue resolved at the CNMV

TABLE 12.4

Subject	2005		2006	
	Number	% total	Number	% total
Provision of investment services	322	58.8	342	56.2
Receipt, transfer and execution of instructions	145	26.4	138	22.7
Informations to the customer	106	19.3	114	18.7
Commissions and expenses	71	12.9	90	14.8
Investment funds and other IICs	227	41.2	267	43.8
Information supplied	85	15.5	103	16.9
Subscription and redemption	64	11.7	42	6.9
Transfers	46	8.4	56	9.2
Commissions and expenses	32	5.8	66	10.8
Total number of claims resolved	549	100	609	100

Source: CNMV.

The most common claims refer to the following aspects:

1) Incidents concerning the provision of investment services

1.1) *Receipt, processing and execution of securities orders:*

The main claims are based on delays in carrying out orders and failure to heed the client's instructions. Specific cases include:

- Incidents involving the execution of orders to sell listed securities on the AIAF market (delay in carrying out orders, carrying out the orders at prices that were lower than those given, etc.).
- Incidents stemming from executing securities orders under terms different to those requested by the client: Deadlines, maximum or minimum prices, volume, etc. These incidents can be aggravated if the securities that are the object of the instruction are admitted for trading on foreign markets.

- Operation through Internet: Impossibility or specific difficulties to operate through this medium, through circumstances that the claimants believe are attributable to the brokerage entity.
- Disagreement with the actions of depositories of securities, in the absence of express instructions from clients (i.e. in processes of capital increase, in which companies sell the share subscription rights in a unilateral way or directly subscribe the new shares).

1.2) Information supplied by entities:

The incidents that stem from claims of this kind refers both to a lack of clarity and information as well as delays or non-delivery of compulsory information. Of particular significance are the following:

- Lack of clarity in the information supplied by those marketing the services with regard to the acquisition of certain products with special characteristics concerning risk or liquidity (preferential shares, subordinate obligations, structured products, etc.).
- Delays or non-delivery of written information to clients by the depositories of securities, which could possibly restrict or prevent the exercise of the investors' rights to attend the General Meeting of Shareholders, with regard to takeover bids, capital increases or issues, and other kind of corporate operations.
- Lack of clarity of the statements that summarise operations and the periodic information supplied by companies to their clients, within the framework of long-lasting or open-ended contractual dealings, especially with regard to commissions and fees received, custodians that look after the securities and market valuation of positions.

1.3) Fees and charges for investment services:

Commissions and costs collected by investment service companies are behind a large number of claims. Clients often say they were unaware of the principle of freedom to set maximum tariffs established in Spanish regulations. The entities are only obliged to notify their maximum rates to the supervisory body and to place them at the disposal of the public. These tariffs must be sent to the client along with the other contractual documentation. There is also some confusion among claimants between the real commissions and expenses that can be passed on. The most frequent situations include the following:

- The application of administrative commissions for a period or a fraction thereof, collected even though the service was only provided effectively for a short period of time (i.e. through sale or transfer of securities).
- Commissions charged for the transfer of securities between depositories (cancellation of the commercial relationship with the source entity), through the change of ownership of securities through inheritance, etc. These commissions can involve the client in high costs, the existence and justification for which they are often unaware of.

— Modification of commissions and costs as a consequence of carrying out a single instruction in several sections or fragments (when the order does not contain the “all or nothing” clause).

2) Incidents concerning investment funds and other collective investment schemes.

2.1) Information and documentation supplied by mutual funds:

There are a great number of claims concerning possible defects in the information supplied by companies prior to subscription of shares.

— Specifically, these usually refers to the lack of information on costs and commissions, the investment policy and the risk level of the fund. It is not always possible to be certain whether the company breached its obligations to provide information or whether the misunderstanding is due to a lack of understanding of the information provided.

— The claims with regard to guaranteed funds are usually based on the fact that their characteristics are not duly known or understood by investors. For example, given that investment funds do not mature, any redemption requires an express order from the investor. If the fund modifies the terms of the guarantee of the investment policy and the investor fails to express the request redemption (which in these cases is commission-free), the capital may end up invested in a fund with characteristics and risks that are different from those that were contracted.

— On occasions, claimants are aware of this circumstance, yet state that they have not received the notifications concerning the setup of the free separation right, in the event of vital amendments to the fund conditions. In these cases it is extremely difficult to discern up to what point the management company is liable and, if appropriate, what proof of sending the information would be acceptable.

2.2) Subscription and payment of shares:

Claims concerning these issues usually refer to the unit redemption value applied to the subscription or payment of shares or to the exchange rate when the transaction affects a foreign collective investment scheme. Incidents stemming from changes of ownership through probate proceedings are quite usual, when the lack of availability of the inherited shares affects the exercise of rights (maturity of the guarantee linked to the fund, opening of the period for the exercise of separation rights, etc.).

2.3) Transfers between investment funds:

The generalised use of the possibility of transfers between collective investment schemes has led to a wide variety of incidents, including the following:

— Delays in the executions of transfer orders, attributable to the source entity or the destination entity. The possible harm to the investor can be aggravated when the delay prevents a window of liquidity being used (dates on which the guaranteed funds enable redemption without a commission), given that the cost

of the redemption commission is added to the uncertainty over the unit redemption values applied.

- The transfers that involve a foreign collective investment scheme generate numerous claims, mainly concerning the deadlines and exchange rates applied. For example, many foreign institutions do not assess or offer daily liquidity, which affects operation deadlines. Elsewhere, if the foreign scheme is in a currency other than the euro the corresponding conversion must be carried out in order to perform the transfer, which also entails an extension of deadlines and an increase to the net cost of the operation.
- Claims concerning the apparent collection of commissions as a consequence of the transfer are also standard. In these cases, the investors must remember that the transfer does not involve any cost whatsoever, but if the fund prospectus involved list redemption commissions (source fund) or subscription commissions (destination fund), these commissions are fully applicable.

2.4) *Commissions and costs of investment funds:*

The unexpected or improper application of the payment commission is one of the fundamental reasons for claims within this sphere. In general, investors are reminded of the importance of checking the fund prospectus prior to subscribing in order to know the costs associated to their operations beforehand.

Applicable criteria in the resolution of claims

The CNMV believes that the dissemination of the criteria used to resolve claims is of special importance, as these defend the practices recommended by the supervisory organisation of entities in their client dealings. Below are a few examples:

Operating on securities markets: The deadline for acceptance of a takeover bid is set by the bidder, and cannot be less than one month or greater than two months. This deadline is given in the operation prospectus, and cannot be unilaterally shortened by brokers. The depositories must therefore accept instructions until the same day on which the acceptance deadline concludes.

Safeguarding and custody of documents: The regulation obliges entities to keep a copy of the contractual documents signed by the customer, as well as the signed slip that proves handover of the documentation, for a period of six years. However, it does not specify when this period commences. The CNMV criteria is that the six years must start from the date on which the contractual relationship is cancelled. This interpretation is considered more consistent with the purpose of the regulation, as it enables any controversies that may arise between the parties to be resolved in accordance with the letter and the spirit of the contract.

Commissions for the administration of securities: The application by the depositories of these commissions in accordance with the criteria of the period or fraction thereof is legal providing that it is shown in the company's price prospectus. However, the CNMV considers that it would be better for entities to receive the administration and deposit of securities commission in accordance with the number of days for which they have actually provided that service.

Elsewhere, the benefits for the client of this system of proportionality are cancelled out when the prospectus lays down high minimum amounts per operation. In these cases, the CNMV recommends looking for formulas that ensure compliance with the principle of proportionality. From a regulatory point of view, the situations are defined with the coming into force of Law 44/2006, dated 29 December, governing improved protection for consumers and users, the consequences of which are being studied.

Transfers between collective investment schemes: In accordance with the regulatory provisions that define this operation, under normal circumstances (Spanish funds without significant specialities, with daily calculation of the unit redemption value, etc.) transfers should be completed within a maximum deadline of eight business days. One business day is included within this deadline to enable the destination entity to send the transfer request to the source entity and two days to enable this party to check that the data is correct prior to making payment and the subsequent transfer of capital.

When the source and destination entities have the same marketeer or the same management company, these formalities are not necessary, by virtue of which the CNMV believes that in general the deadline for carrying out the payment must be reduced by three business days. The payment order date would therefore be taken as the date on which the transfer order is given.

Commissions concerning transfers between collective investment schemes (IICs): Investors are frequently surprised at having to pay commissions when carrying out a transfer between IICs. The mistake of believing that this is a free of charge transaction is due in part to the deferral of the tax effect and also partly to the fact that the transfers are not included among the concepts of commissions listed in the IIC prospectuses. Although the transfer would not have any specific associated cost, it is an operation that entails redeeming shares in one IIC to invest in another. The redemption and subscription commissions listed in prospectuses of the institutions involved are therefore applicable.

To avoid confusion among investors, the CNMV thinks it would be advisable that prior to commencing a transfer procedure, the entities duly warn investors of possible redemption or subscription commissions that will affect the transaction and to include this information in the order.

12.2.2 Accusations

The accusations included in this chapter are solely and exclusively those filed by private investors, either directly or through the associations that represent them.

In accordance with the foregoing, a total of 14 accusations were presented to the CNMV in 2006. The facts declared in the accusations covered several issues, such as market operations, corporate governance, codes of conduct, etc., with no specific issue causing a greater number of accusations than another.

6 of the 14 accusations filed had been resolved at the close of 2006, with the remaining 8 in progress. The 6 resolved accusations were closed and no disciplinary proceedings were taken in any of the cases.

12.2.3 Resolution of queries made by investors

As indicated, another of the services offered by the Investor Assistance Office is the resolution of enquiries that may refer to simple issues concerning the CNMV or the information available via the website and its publications or, on the contrary, may require the participation of CNMV officers that specialise in different issues or a report from other CNMV units.

The Office therefore places a specific telephone helpdesk at the disposal of investors (902 149 200), where a group of operators deal with the initial enquiries and provide the information requested, provided it is accessible and in the public domain.

If the question requires a specialised answer, the query service officers will subsequently make contact with the person making the enquiry to deal with their request for information as expeditiously as possible and without any administrative formalities.

There is also an e-mail address to which requests for information may be addressed (inversores@cnmv.es). Letters may also be sent to the CNMV requesting information.

Volume and types queries received

Almost 10,000 queries were received in 2006, mainly through phone calls that were dealt with by operators at the call centre. The remainder, which fall short of one third of the queries presented, were made through other channels that were handled by personnel from the Investor Assistance Office.

Distribution of queries processed by channel						TABLE 12.5
Channel	2006	% total	2005	% total	Chg. % 06/05	
Phone	6,836	68.46	9,064	75.17	-24.6	
e-mail	2,228	22.31	1,962	16.23	+13.6	
Letters	239	2.39	468	3.93	-48.9	
Attendance	682	6.83	393	3.32	+73.5	
Total	9,985	100	11,887	100	-16.0	

Source: CNMV.

The main issues that concerned investors in 2006 issues involved queries on issuing companies (29.2%) and within this section those that correspond to the different takeover bids (11.8%). Queries concerning the CNMV were also numerous (21.5%) as were those concerning the content of its Official Registers (19.7%). The remainder refer to unregistered companies (7.5%), the performance of investment services companies (7.1%), legislation (6.2%) and the operation of collective investment schemes (5.8%).

Most relevant issues that were subject to enquiries

Among the most relevant issues queried over the year were the following:

- Motivated by the launch of different takeover bids, investors wondered about the distribution and pro rata criteria to be applied in cases of partial takeovers or with regard to the possibility of not having to pay the costs resulting from acceptance of the takeover bids, given that the bidders usually designate a market member through which the brokerage costs are free for the shareholder.

Other queries refer to the possibility of revoking orders of acceptance already sent when substantial modifications occurred in the bid conditions, such as those referring to the deadlines for acceptance in view of the different actions carried out by the different depository entities. On occasions, this kind of enquiry led to specific notifications from the CNMV to the market, the companies and investors in order to pass on criteria to be followed in a uniform manner by all entities in their dealings with clients that hold shares affected by these operations.

- The launch of new investment products in Spain, such as the exchange traded funds (ETF) or hedge funds have led to a great many enquiries from investors on the investment rules, manner of access for investors, applicable commissions, etc.
- The need to know the date of purchasing the securities that have been sold is quite standard, in order to comply with tax obligations. Many investors ask about the legal deadlines for holding on to the order receipts, for the depositories to provide information and, in the absence of these, the other alternatives to get this information - such as the register entries, for example.
- Queries from investors that are shareholders in unlisted companies who, for a variety of reasons, did not accept the delisting takeover bid or were unaware of the delisting without a takeover bid and wish to find out what they can do to transfer their shares are also frequent.

All enquiries from holders of shares in companies excluded from trading and currently inactive and who wish to stop paying administration commissions to the depositories or that wish to attribute the loss generated for tax purposes.

- As a consequence of the coming into force of the new regulations governing the prevention of money laundering which, *inter alia*, reinforces the client ID requirements, some investors have addressed the CNMV to find out about these requirements and what documentation they were obliged to give their entity as their client.

12.3 Investor education and information

The section in charge of investor education and information carries out a wide range of activities, including better quality and conditions under which the information, one of the top assets at its disposal, reaches investors.

Information and education initiatives are also carried out, targeted at investors. These range from the publication of guides, courses, seminars, sessions, round

tables, taking part at trade fairs specialising in financial services, and include the participation in communications media. The preparation and design of interactive tutorials that enable users to acquire basic financial knowledge to operate in the securities market is also one of the latest initiatives set up by this unit.

The improvement of the investors' financial ability comprises one of the key elements for achieving higher levels of protection. This is a medium- or long-term effort that is essential to enable individuals to use the information available on the markets and, as a consequence, take responsibility for their investment decisions.

12.3.1 Dissemination and education activities

Publications aimed at investors

The CNMV publications for investors attempt to offer a simple and practical view of the securities markets. Both the guides, with in-depth content, as well as the files, focused more on specific issues, can be obtained free of charge via the subscriptions service. At the end of 2006, there were 8,500 subscribed investors, 2,000 of which had signed up over the year.

The "Investors Files" continue to provide practical information on those issues whose opportunity arises through market circumstances. The following titles are currently available:

- What you should know about... takeover bids, OPV / OPS (2006).
- What you should know about... exchange traded funds, ETF (2006).
- What you should know about... CNMV services for investors (2005).
- What you should know about... transfers between investment funds (2005).
- What you should know about... takeover bids (2005).

With regard to the "Investor Guides", several of those published in previous years have been updated and republished, as the modifications and regulatory implementations that affect the securities markets require an ongoing review of the content. To date, the collection of guides includes the following titles:

- Fixed-income products (2007).
- Investment funds and collective investment (2005/2006).
- Options and futures (2004).
- Securities orders (2004).
- Investment services companies (2002).

- Fly-by-night financial operations (2002).
- The shareholders rights and responsibilities (update pending modifications in issues of takeover bids in 2007).

For the purpose of providing the broadest distribution possible of these publications, we have intensified contacts within the sphere of co-operation, both with the financial industry as well as teaching institutions. This has led to a slight increase not only in the number of agreements signed, but also in the volume of copies (files and guides) distributed via the collaborating parties. Furthermore, these were publicised in various media and posted in electronic format on a number of institutional and private web sites. All the guides are available in English in the Investors' Corner section of the CNMV web site.

Investors' Files and Guides: number of distribution agreements and copies circulated TABLE 12.6

	No. of agreements		Number of copies					
			Files		Guides		% total	
	2005	2006	2005	2006	2005	2006	2005	2006
Markets: Stock markets and MEFF	5	5	28,700	12,725	5,900		25	12
Investors (direct request to the Investor Assistant Office)			8,756	55,294	16,566	25,207	50	28
Consumer Associations	8	9	4,950	2,376	5,330		5	4
Securities Market								
Entities:	163	179	51,507	2,325	28,844		5	28
Securities Broker-dealer	39	30	9,518	1,325	8,145			
Brokers	37	40	4,148	300	2,576			
SGCs	17	18	3,171	100	3,392			
SGIICs	65	86	34,016	600	14,713			
Branches of foreign investment services firms	5	5	654	0	18			
Credit institutions	16	49	900	31,934	1,855	29,097	5	21
Universities and other education institutions	25	37	5,620	4,650	12,744		9	7
Other	—	—	150		418		0	0
Total	217	279	9,656	178,155	40,497	107,540	100	100

Source: CNMV.

Conferences and fairs for investors

The CNMV promotes direct communication with investors through participation at seminars, sessions and open-door events.

The CNMV took part as usual at Bolsalia and Borsadiner, stock exchange and financial market events held in Madrid and Barcelona, respectively. The tremendous attendance of private investors at these fairs represented an excellent opportunity to showcase and explain the work of the CNMV. Around 50% of the questions posed by visitors referred to the CNMV's own activities.

Last year the CNMV took part in 14 events all over Spain, targeted at retail investors. These kinds of informative talks and conferences, targeted at individuals that are not familiar with financial matters, are usually carried out in partnership with different groups: consumers associations, professional bodies, public and private universities, financial institutions, etc.

12.3.2 The Investors' Corner on the CNMV website

The Investors' Corner section of the CNMV website is still one of the main channels of communications with citizens interested in the securities market. The recent modification of the homepage enables immediate access to some new sections and tools, designed to facilitate access to information by investors.

Among the improvements introduced throughout 2006 in this section was the dissemination of criteria used to resolve claims and queries, as well as a comparison table of investment funds.

Dissemination of criteria on claims and queries

As indicated in the previous section, the CNMV believes the dissemination of criteria used to resolve claims is particularly useful, both to enable the financial institutions to adapt their practices with clients as well as to allow clients to have a clear reference with which to compare those practices pursued by the company with which they operate.

Quarterly reports on the main conclusions in criteria established by the CNMV stemming from the enquiries and claims presented by investors can be consulted via Investors' Corner.

We envisage that from now on the criteria will be disseminated and permanently updated via Investors' Corner.

Investment fund gauge

A new tool has been included on the web page this year in order to get comparative information on investment funds. Although it is in Excel format, this tool enables information available on Spanish investment funds to be dealt with easily, with the possibility of organising them in accordance with criteria of greater interest: Investment policy, commissions, historic returns, etc. Work is taking place on substantial improvement of this tool which will enable investment funds to be compared in a simple user-friendly way by selecting different criteria and also accessing the most relevant information on the selected funds, both quantitative (commissions, return, volatility) as well as qualitative with regard to the fund itself as well as the fund manager. The latter, through the inclusion of links with the registry data of the fund manager and the fund and with the prospectus, the content of their quarterly reports and any relevant facts that affect them.

We also commenced work on other simple tools that provide comparative information on investment products and services.

12.3.3 Dialogue Forum on Investor Protection

The Dialogue Forum on Investor Protection was convened in 2006 to encourage transparency and the participation of all agents that take part in the securities markets, and with the intention of setting up a regular flow of dialogue and collaboration between the CNMV and financial institutions. This forum enjoys the healthy participation of those in charge of customer care services and the ombudspersons of companies that provide investment services, as well as consumer organisations represented on the Advisory Committee of the CNMV. Moreover, given the unavoidable need for cooperation between the three supervisors of the financial system, the Complaints Department of the Bank of Spain and the Directorate-General of Insurance and Pension Funds also joined the Forum.

Three work committees were set up as a material result of the Dialogue Forum, which dealt with issues concerning: (i) definition and sector statistics of claims and queries; (ii) information to clients on specific aspects raised through complaints and queries, (iii) incidents involving changes of ownership of securities resulting through inheritances. The selection of these initial issues was based on the proposals and suggestions sent by investors and on the experience of the Investor Assistance Office.

The creation of these work committees has been an attempt to unify issues and concepts and identify and centralise the difficulties of the repositories when it comes to informing clients and to standardise the actions of companies with regard to cost, procedures or time taken in the changes of ownership of securities through inheritance. To sum up, we are looking to maintain fluid communication with the entities by sharing problems and looking for mutual solutions.

This group hopes to encompass new work lines in the near future. Among other issues, we anticipate analysing the contracting of financial products online, the standardisation of investor risk profile and the marketing of financial products that are special either because of their complexity or because of the investor's level of exposure to risk.

12.3.4 International cooperation

The growing attention that regulators and supervisors give to the needs of financial education of the public has enabled the exchange of experiences with other countries, both Latin America and European, on the probative value of these initiatives and the tools used in issues of investor education and information.

Here, we must point to the intervention on the Investor Protection Forum in Guatemala, promoted by the Instituto Iberoamericano de Mercados de Valores, and at the Investment Fair in Costa Rica, within the scope of partnership that the CNMV has with other countries in Latin America.

We must also underline the participation on the work group that provides online information required for investors to perform cross-border operations, carried out within the sphere of the Committee of European Securities Regulators (CESR).

12.4 Advertising of investment products and services

In spite of the ongoing recommendations that the CNMV addresses to investors on the need to check the official information of the product before making the investment, the influence of advertising in the taking of investment decisions is unquestionable.

The CNMV consequently carries out ongoing monitoring of the advertising of investment products and services, ensuring that they comply with two basic criteria: The message must be balanced and must not generate unrealistic expectations. In summary, this is an attempt to ensure that advertising does not contain potentially deceitful elements.

In order to ensure that advertising campaigns uphold these principles, the CNMV offers to vet advertising before it is released. As the following table shows, there is growing demand from advertisers to use this service. Furthermore, the CNMV can implement other kinds of initiatives as provided by regulation to restrict the dissemination of campaigns which it considers might mislead the target public.

CNMV advertising campaigns TABLE 12.7

	Preliminary analysis		Subsequent control		Total	
	2005	2006	2005	2006	2005	2006
IIC	172	207	9	6	181	213
Foreign IICs	28	104	1	4	29	108
Issues and Public Offerings (OPV)	8	25	5	2	13	27
Financial services	10	16	2	3	12	19
Total	218	352	17	15	235	367

Source: CNMV.

12.5 Investment guarantee fund (FOGAIN)

The FOGAIN continued to receive and process requests for compensation in 2006 from clients of five companies whose insolvency was covered by the Fund¹. The amount of the accumulated compensation paid at the year-end reached €64,361,128, with a total of 9,407 claims processed.

The FOGAIN continued to try to recover the amounts of compensation paid to date by virtue of the legal subrogation that payment of the indemnification produced in its favour, although there have been no significant advances. With

1. These companies are: AVA Asesores de Valores, A.V., S.A., Gescartera Dinero, A.V., S.A., Broker Balear, A.V., S.A., Bolsa 8, A.V., S.A., and XM Patrimonios, A.V., S.A.

regard to this issue, the Gescartera Dinero, A.V., S.A. trial is scheduled to take place in 2007.

By the end of 2006 the management companies had 129 affiliated entities of which 100 were broker-dealers, 15 portfolio management companies, one branch of a foreign investment service company and 13 collective investment management companies (which have been included as the discretionary management service of third-party portfolios has been incorporated into its schedule of activities, an investment service that is covered by the Fund guarantee).

In an effort to accommodate the incoming and outgoing entities and the variations in the participation percentages of the affiliated entities, the new share capital of the Management Company was set at €167,747 in June. A budget was also prepared for 2007 for a total amount of €776,663, which was approved by the CNMV.

As well as claims from clients of investment service companies in breach, the Management Company's activity has focused on compliance with the provisions set forth in article 20.1 of Royal Decree 948/2001, which obliges the Management Company to provide information to investors on the scope and content of the FOGAIN. This is scheduled to continue in 2007. The year's investments have therefore been targeted at improving data systems and setting up a new web page to be used both by the affiliated entities as well as those that wish to present requests for compensation to the Management Company.

Finally, we must point out that the FOGAIN has continued its operations to promote dialogue and act as a channel for the transmission of the interests pertaining to the affiliated entities via three work groups: One, governing the operating rules in the securities markets, another on money laundering and a third on the application of the MiFID.

13 Disciplinary proceedings

The CNMV is able to impose penalties for violation of securities market regulations. These regulations enable it to issue the corresponding disciplinary penalties for very serious violations and impose sanctions for minor and serious violations. The Ministry of Economy and Finance is responsible for punishing the most serious violations following the submission of a report from the CNMV.

In 2006, there were less cases than in 2005. However some of these cases were of more than usual complexity and significance because of the nature and extent of the violations that came under investigation. These included a number of cases involving market abuse, the investigation of which is always complex. We must also point out the inception of disciplinary proceedings for breach by listed companies of the obligation to prepare and publish the annual corporate governance report, an obligation pursuant to Law 26/2003, dated 17 July, for the purpose of bolstering transparency.

14 disciplinary proceedings concluded in 2006, most of which had been initiated the year previously. These involve violations of a varied nature, although most of them are breaches comprising market manipulation practices and the dissemination and use of insider information.

All penalties imposed in 2006 were of an economic nature, with the exception of the temporary suspension for the provision of a specific investment service imposed on a community credit institution.

13.1 Disciplinary proceedings

13.1.1 Statistics

In 2006, the CNMV's Executive Committee initiated a total of 10 new investigations for a total of 13 alleged violations. At the same time, the CNMV completed 14 investigations into cases that included a total of 24 alleged violations. 10 of these cases had commenced in 2005 and 4 in 2006 (see tables 13.1, 13.2 and annex IV.3).

The number of penalties imposed was 30. One penalty involved the suspension for three months of the provision of the investment service corresponding to the placement of securities and the remaining 29 were of a pecuniary nature for a total sum of €2,366,600 (see table 13.3).

In accordance with the nature of the violations investigated in the different disciplinary proceedings that were initiated or concluded in 2006, the following details are worthy of mention (see table 13.4) :

- In the cases under investigation, 4 alleged violations related to the use of insider information, 3 to failure to prepare and publish the annual report on corporate governance and 2 related to the provision of unauthorised investment services. In one of the cases concerning the use of insider information, the details have been passed on to the Ministry of Finance as we observed that there were signs that this behaviour could constitute a criminal offence.
- In the cases that were concluded, 4 resulted in penalties for the use of insider information, 1 involved market manipulation and 6 involve failure to send different mandatory reports to the CNMV.

Proceedings initiated and concluded in 2006

TABLE 13.1

	2005	2006
Number of proceedings initiated	14	10
Number of proceedings concluded	21	14
of which:		
– Initiated in 2006	—	4
– Initiated in 2005	—	10
– Initiated in 2004	18	—
– Initiated in 2003	3	—

Source: CNMV.

Nature of violations leading to disciplinary proceedings

TABLE 13.2

	2005	2006
1. Nature of violations for which proceedings were initiated	24	13
Very serious	15	9
Serious	9	4
2. Nature of violations for which proceedings concluded	36	22
Very serious violations:	25	11
– Proceedings initiated in 2006	—	1
– Proceedings initiated in 2005	—	10
– Proceedings initiated in 2004	21	—
– Proceedings initiated in 2003	4	—
Serious violations:	11	11
– Proceedings initiated in 2006	—	3
– Proceedings initiated in 2005	—	8
– Proceedings initiated in 2004	6	—
– Proceedings initiated in 2003	5	—

Source: CNMV.

Penalties imposed

TABLE 13.3

	2005			2006		
	No.	Amount ¹	Period ²	No.	Amount ¹	Period ²
Fines	53	1,636.0	—	29	2,366.6	—
Suspension/restriction of activities	—	—	—	1	—	3

Source: CNMV.

1. In thousands of euros.

2. In months.

Regulation and
supervision of the
securities markets
Disciplinary proceedings

Number of violations subject to investigation, by type

TABLE 13.4

	Cases opened		Cases closed	
	2005	2006	2005	2006
Very serious violations	15	9	25	11
Failure to disclose/Incorrect disclosure of significant holdings	—	3	13	1
Engaging in prohibited activities	3	2	3	1
Market manipulation	1	—	—	1
Breach of coefficients	—	—	—	—
Failure to disclose significant events/provision of misleading, incorrect or materially incomplete information	—	—	—	—
Violation of general securities market regulations	3	—	5	3
Violation of general IIC regulations	—	—	—	—
Accounting irregularities	2	1	—	—
Unregistered issues	—	—	—	—
Insider dealing	6	3	2	5
Obstructions of inspections	—	—	2	—
Serious violations	9	4	11	11
Accounting irregularities	—	—	3	—
Engaging in prohibited activities	—	—	1	1
Breach of coefficients	—	—	1	—
Violation of general securities market regulations	4	—	—	—
Violation of general IIC regulations	1	—	1	—
Breach of rules of conduct	3	—	5	3
Market manipulation	1	—	—	1
Insider dealing	—	1	—	—
Non-preparation/publication/timely remittance of compulsory reports	—	3	—	6

Source: CNMV.

13.1.2 Public register of penalties for serious or very serious violations

In 2006 the following decisions in cases involving serious or very serious violations were recorded in the public register of penalties:

— CNMV Resolution of 20 February 2006 publicly disclosing the imposition of penalties for a serious violation by _____ and its

- directors, as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
- CNMV Resolution of 20 February 2006 publicly disclosing the imposition of a penalty for a very serious violation by _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
 - CNMV Resolution of 20 February 2006 publicly disclosing the imposition of a penalty for a very serious violation by _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
 - CNMV Resolution of 20 February 2006 publicly disclosing the imposition of a penalty for a very serious violation by _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
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 - CNMV Resolution of 20 February 2006 publicly disclosing the imposition of a penalty for a very serious violation _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
 - CNMV Resolution of 20 February 2006 publicly disclosing the imposition of a penalty for a very serious violation _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
 - CNMV Resolution of 24 April 2006 publicly disclosing the imposition of a penalty for a very serious violation _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
 - CNMV Resolution of 24 April 2006 publicly disclosing the imposition of penalties for a serious violation _____ as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.
 - CNMV resolution of 17 November 2006 publicly disclosing the imposition of penalties for very serious violation _____

- CNMV Resolution dated 17 November 2006 publicly disclosing the imposition of penalties for very serious violation
- CNMV Resolution dated 17 November 2006 publicly disclosing the imposition of penalties for very serious violation by
- CNMV Resolution dated 17 November 2006 publicly disclosing the imposition of penalties for serious violation by
- CNMV Resolution dated 17 November 2006 publicly disclosing the imposition of penalties for very serious violation
- CNMV resolution of 17 November 2006 publicly disclosing the imposition of penalties for very serious violation
- CNMV Resolution dated 17 November 2006 publicly disclosing the imposition of penalties for serious violation

13.1.3 Criteria of interest

Unlawful communication of privileged information to third parties. Preventive Measures

Article 81 of the Securities Market Law requires any person in possession of insider information, inter alia, to abstain from notifying this to third parties unless through the normal performance of their work, profession or post.

As a general rule, the notification of insider information to third parties by professional economic agents is considered to be within the normal course of their activity when it responds to a legitimate interest or purpose and the receiver of the information is warned of the confidential nature of this information. However, and pursuant to each case, the exception to the general rule of prohibiting communication on the basis that this is carried out through the normal exercise of the profession requires the additional observance of their own rules or operating protocols by the receiver.

The fight against conduct involving the use of insider information has an undeniable preventive dimension. Those with greater possibilities of repeatedly accessing this kind of information are obliged by the Securities Market Law to take the measures necessary to prevent improper use.

As stated by the community legislator in Recital 24 of Directive 2003/6/EC, dated 28 January 2003, on operations with insider information and market manipulation (market abuse), the preventive measures to control market abuse can only contribute to the fight against this if they are applied with determination and properly controlled.

The community regulations leave the specific preventive measures against the use of inside information to be applied by the professional economic agents that operate in their territory to the initiative of each member state, to be incorporated into the legal system for the purpose of ensuring the integrity of the securities market.

By partially transposing the Directive, through Law 44/2002, dated 22 November, the general obligation for professional economic agents to set up a series of preventive measures to prevent the flow of insider information between these different areas of activity is incorporated into article 83 of the Securities Market Law, whilst elsewhere the basic information of safeguarding this information is incorporated into article 81.4, thus adopting the additional suitable measures to prevent this information from being subject to abusive or unfair use.

In this regard, and with the national legislator aware of the extraordinary variety of organizational models that professional economic agents acting in the securities markets may have, and of the operations which, undertaken by these parties, entail the risk of using insider information, lawfully sets down the possibility of certain self-regulation in the take-up of preventive measures, in such a way that it is these agents that can definitively establish their own rules or operating protocols with regard to this issue, in application of the aforementioned article 81.4 of the Securities Market Law.

This possibility of self-regulation is merely a further manifestation of the provisions set forth in Heading VII of the Securities Market Act, setting forth the codes of conduct to be pursued by professional economic agents. Pursuant to article 78, these agents are subject, *inter alia*, to the codes of conduct contained in their own internal conduct regulations, understood as those that are considered fit and proper for the purpose of bringing their operations into line with the principles and general requirements set forth in article 79, including the duty to behave with diligence and transparency in defence of the market's integrity.

In 2006, the CNMV imposed a fine of one million euros and a partial suspension of activity for a period of three months on a community credit institution that commenced demand research in a large Spanish securities placement transaction, with the stock market was trading, thus contravening the regulations or self-imposed operating protocol applicable of not starting this until the stock market had closed. This conduct led to insider information reaching third parties and infringing the preventive measures in place, in this case a time restriction with regard to dissemination, which meant that it did not carry this out during the normal exercise of its profession or activity.

A fine of €30,050 was also imposed on an employee of a credit institution for giving insider information to a relative.

Unlawful use of insider information. Profit

In 2006 the CNMV imposed 2 fines, for an amount of €60,000 and €682,555 respectively, on two physical individuals for the use of insider information.

Article 81 of the Securities Market Law sets forth that persons with privileged information must abstain from the preparation or performance of operations concerning the affected securities. Article 2 of Directive 2003/6/EC, dated 28 January 2003, governing operations with insider information and market manipulation (market abuse) lays down the prohibition of using this information via the purchase or assignment, or attempted purchase or assignment, of those securities.

Pursuant to the literal content and spirit of the regulation, violation of illicit use of insider information does not require *lucrum* or profits to be obtained for its author or third parties.

However, profit is a relevant element in the legal system governing the use of insider information. Firstly, its quantification is key to determining whether the conduct constitutes only an administrative violation or leads to the crime set forth in article 285 of the current Criminal Code¹. Elsewhere, in accordance with the Securities Market Law, it constitutes a significant detail for the imposition of the corresponding fine, as it must be considered the basis for the quantification of its minimum and maximum limits² and as a scaling criteria for precise determination³.

As a general rule, as these are cases of purchase of securities whilst in possession of inside information, the CNMV calculates the profit through the difference between its purchase and sale price – when this has occurred on dates close to the publication of the corresponding information – or even between the purchase price and the market's closing price on the day of the aforementioned publication. In the latter case, the latent capital gains of the securities acquired at a time in which the market is believed to have incorporated the corresponding inside information into its price are taken.

An aggravating circumstance is the importance of the profit obtained, calculated in accordance with the foregoing criteria, based on the relevance of this amount both in absolute terms as well as in relative or percentage terms (return obtained on the investment made).

These criteria have been confirmed in the judgment from the National Court (Public Law division of an appellate court – Section Six) dated 20 November 2006.

1. The use of insider information with profits in excess of €600,000 is a crime.

2. Articles 102 and 103 of the Securities Market Law.

3. Article 14.c) of the Discipline and Intervention of Credit Institutions Act.

13.2 Litigation department: judicial reviews of penalty rulings and other claims

The penalty as requisite element in the regulation of the securities market has a corollary in our judicial system through the possibility of review of the penalty decisions through administrative channels which corresponds to the Ministry of Finance, and through the contentious-administrative jurisdiction in judicial channels, or without prejudice to the operations carried out by the CNMV before these organisations in defence of the general interests commissioned to this party.

As part of these duties, the Litigation and Enforcement Department is entrusted with satisfying the procedure set forth in the Regulatory Act of Contentious-Administrative Jurisdiction and to collaborate in the defence of challenged penalties, as well as with respect to other rulings pronounced by the CNMV within the framework of its terms of reference.

In 2006, the Ministry of Finance (see table 13.5 and annex IV.4) ruled on four applications for review and three interlocutory appeals against penalty decisions. The decisions appealed against were upheld in all cases.

A total of 17 appeals against administrative decisions were agreed by the CNMV or, if applicable, the Ministry of Finance, and were resolved through judicial channels (see table 13.5). Apart from two cases, in which the appeal is fully or partially considered, the judgments uphold the penalties imposed.

In a similar fashion, and in compliance with the general imperative principle of providing collaboration requested at hearings and trials, the Litigation and Enforcement Department provides assistance and cooperation to courts and tribunals of all levels, especially criminal courts, mainly in trials for fraud and embezzlement and use of insider information.

Within the framework of this collaboration, 68 requests were processed in 2006.

CNMV interaction with the judicial system in 2006

TABLE 13.5

	Ongoing	Decided
Administrative appeals	7	7
Appeals to a higher instance	4	3
Appeals for reconsideration	3	3
Appeals to the courts against administrative decisions	11	17
Cases where assistance provided		
Assisting in court proceedings	68	

Source: CNMV.

13.3 Alerts on unauthorised firms

When an unregistered entity is discovered to be operating by the CNMV or another regulator, an alert to investors is published on the CNMV website. The following alerts were posted on the website in 2006 (see annex IV.5):

- In accordance with the provisions set forth in article 64.7 of the Securities Market Law, 3 alerts concerning unregistered companies that were subject to disciplinary proceedings.
- By virtue of the provisions set forth in article 13 of the Securities Market Law, which requires the CNMV to make all information available to ensure that investors are protected, 8 notifications were given to eight companies.
- In the field of international cooperation, the CNMV published a total of 312 disclosures from both European countries as well as from around the world, alerting investors to a total of 397 unregistered persons.

14 Coordination and cooperation in regulation and supervision

14.1 Relations with other supervisors

Within the sphere of cooperation between supervisors in recent years, both within the domestic sphere as well as on the international stage, one of the most characteristic elements has been the emphasis placed on trans-sector coordination. There is, in practice, an across-the-board consensus between financial market regulators on the need to improve and reinforce supervision of financial companies, more specifically larger ones, with interests in different financial sectors and that carry out activities covered by different jurisdictions. Among the justifying reasons for this conviction are the following:

- The growing integration of financial and capital markets.
- The cross-border operations of an increasing number of financial companies.
- The existence of financial conglomerates that offer or market crossover banking, securities and insurance products and services.
- The marketing of financial products that combines characteristic features of banking, securities and insurance.
- The complexity of financial instruments which, in an extreme situation, could have systematic consequences and affect financial stability in the long run.

The regulators have a twin response to this scenario: a review of the functional or institutional structure of supervision within the domestic sphere and coordination of supervisors (both within the local sphere as well as cross-border), in those issues that cover inter-sector aspects.

On the point concerning cooperation and cross-border coordination of regulators with a multi-sector perspective, we must include the participation of the CNMV at two international events: the Joint Forum, with a global vocation and closely tied to the most developed countries from a financial point of view and, with regard to what could be considered as a response or European version of the foregoing Forum, the so-called 3L3 group. The participation of the CNMV and its interrelations with the remaining Spanish supervisors -the Bank of Spain and the Directorate-General of Insurance and Pension Funds- on both forums is extremely active.

14.1.1 Coordination with Spanish supervisors

The terms of reference for supervision of the Spanish financial system are distributed between the Bank of Spain, the Directorate-General of Insurance and

Pension Plans and the CNMV, apart from those allocated to some Autonomous Communities. The efficacy in the performance of this model requires proper collaboration and coordination between the three supervising organisations. To this end, in 2004 the CNMV signed two Collaboration Agreements with the Bank of Spain and the Directorate-General of Insurance and Pension Funds.

In accordance with the provisions set forth in these Agreements, the scheduled inspections by the Bank of Spain were taken into consideration in the preparation of the action plan, and this organisation was notified of the inspections that the CNMV intended to carry out with credit institutions. Subsequently, the CNMV issued a result of these actions, as well as the different subpoenas sent to credit institutions, resulting from incidents detected during the inspections carried out on Collective Investment Management Companies.

With regard to collaboration with the Directorate-General of Insurance and Pension Funds, this organisation was notified in 2006 of specific incidents that were affecting a Collective Investment Management Company, in case this could affect the pension funds that another company of the same group was managing. This party was also made aware of different facts concerning an takeover bid with regard to a listed security that affected pension funds. Finally, information was given on different actions that were being carried with a company that might have been providing investment services without being qualified to do so..

Financial Stability Committee (CESFI)

Changes in the nature of risks and the ease with which they can be transferred caused by deregulation, liberalisation and globalisation of the financial markets, coupled with the greater complexity that stems from advances in financial innovation, has meant that the role played by public policies in the promotion of financial stability has had to change.

To tackle these problems, supervision of the financial system must adapt by looking for new formulas and increasing coordination between the authorities involved, in one way or another, in the prevention and management of financial crises, both in Spain as well as in other countries.

Different agreements have been signed within the European sphere in the quest for new initiatives. The most recent are the "Agreement for multilateral cooperation on the exchange of information and supervision of securities activities" (2004) and the "Agreement on cooperation between banking supervisors, central banks and Ministries of Finance of the EU in situations of financial crises" (2005).

In Spain, in line with the ECOFIN recommendations and pursuing the first of the two foregoing European agreements, the MEH, the Bank of Spain, the CNMV and the Directorate-General of Insurance and Pension Funds signed an Agreement of cooperation and exchange of information in 2004 which has reinforced the mechanisms that existed prior to this, whose main objective was to foster cooperation between the aforementioned authorities in issues of financial stability and the prevention and management of crises with potentially systemic effects.

The principles on which this agreement is based are: The absence of a legal bind, mutual collaboration, efficiency, extension to other authorities in the exercise of their functions when it is considered opportune, complementarity in other present or future cooperation procedures between responsible authorities and primacy of private responsibility.

Within this Agreement, one of the main elements was the incorporation of the CESFI, which met for the first time in June 2006. The members of the Committee are the State Secretary for the Economy, who presides, the Deputy Governor of the Bank of Spain, the Vice-chairman of the CNMV, the Director-General of Insurance and Pension Funds and the Director General of Finance and Financial Policy acting as the Committee Secretary.

The Committee set up a standing committee in charge of preparing the documentation for the meetings and coordination of the actions in issues of the prevention of crises with potentially systemic effects. The Committee may likewise set up *ad hoc* workgroups to perform specific tasks.

The functions of the Committee are:

- a) To promote the systematic exchange of information and opinions within the spheres of financial stability, prevention and management of crises with potentially systemic effects, faced with the possibility that in the exercise of their respective functions the supervising organisations uncover information that could be of interest to another authority within the same spheres.
- b) To promote the reinforcement of instruments to safeguard financial stability, prevent crises and manage these effectively, including the implementation of contingency plans and carrying out tests of resistance and simulation exercises.
- c) To improve collaboration within the sphere of financial stability and prevention and management of crises with potentially systemic effects with other EU authorities.

As regular issues for discussion, the CESFI will encompass the assessment of financial stability in Spain, aspects of regulation, the practical performance of the cooperation agreement between supervisors and the subsequent analysis of the experiences concerning participants in issues of financial crises of any kind. It will analyse the results of the simulation exercises and resistance tests, and extract the pertinent conclusions. They will also meet up for the management of possible financial crises with potentially systemic effects.

With regard to transparency, we would point out that as a general operating principle, all documents and communications concerning the Committee are of a confidential nature, given that publication could be detrimental for the stability of individual companies or for the system as a whole. However, the Committee considers that transparency in its activities is essential. It is important that the public at large, as well as the supervised companies

are aware of the Committee's activities, as this will contribute to improve the culture of financial stability in Spain and will also facilitate the dealings that the Committee has with interested third parties that could contribute to the Committee's reflections.

14.1.2 Cooperation with supervisors in other countries

Cooperation in investigations

The CNMV Directorate of Litigation and Disciplinary Proceedings channels cooperation requests that are sent, or which need to be sent, to other supervisors for investigation of certain practices that are contrary to the securities markets regulation. 39 collaboration requests were sent by the CNMV to foreign regulators in 2006 (the same numbers as in 2005, and 46 requests were sent to the CNMV (38 in 2005).

Approximately half of the requests for cooperation, both received as well as sent, related to investigations into market abuse, while the other half referred to investigations into activities performed in the securities market without due authorisation.

Agreements with other regulators

Since 2003, the CNMV has formed part of the IOSCO Multilateral Cooperation and Exchange of Information Agreement, an agreement that was signed by supervising organisations from six countries in 2006: Malta, Denmark, Dubai, Israel, Nigeria and Norway. With these new signatories the number of agreement subscribers at the end of 2006 totalled 35¹.

14.2 International working groups on securities markets regulation and supervision

Participation at international regulation forums once again represented one of the main priorities of the CNMV. Within the European sphere, the CNMV maintained intense participation on the Committee of European Securities Regulators, which advises the European Commission on its legislative harmonisation proposals and promotes a better approach of supervisory practices. Worldwide, the CNMV continue to actively participate at the different IOSCO organisational levels and working groups. The CNMV has continued to reinforce co-operation with other regulators, especially those in Latin America, via different channels including the Instituto Iberoamericano del Mercado de Valores.

1. In addition to the aforementioned six, there are nine from 2002 (Australia, USA – CFTC, USA – SEC, France, Greece, Ontario, Portugal, Quebec and Turkey), fifteen from 2003 (Alberta, Germany, British Columbia, Spain, Hong Kong, Hungary, India, Italy, Jersey, Lithuania, Mexico, New Zealand, Poland, United Kingdom and South Africa), two from 2004 (Slovakia and Sri Lanka) and three from 2005 (Belgium, Isle of Man and Singapore).

Attendance at international meetings and participation in technical assistance missions

TABLE 14.1

	Number of meetings	
	2005	2006
CESR	126	73
IOSCO	43	59
European Union	36	26
OECD	9	7
Other forums	31	34
Total	245	199
Technical assistance missions	5	4

Source: CNMV.

Regulation and supervision of the securities markets
Coordination and cooperation in regulation and supervision

14.2.1 Committee of European Securities Regulators (CESR)

As forecast, 2006 represented the end of an age of legislative developments stemming from the Financial Services Action Plan (PASF) in the EU, and the start of another one characterised by the coordinated application of the regulatory framework. Therefore, the main characteristics of activity in 2006 of the CESR, which pools the supervisors of the EU securities markets, was the transformation of its main focus of activity. This reflects the cyclical change in issues of financial services in the EU, which was crystallised in the White Paper on Financial Services at the end of 2005, which announced community legislative stagnation and pushed for greater efforts in supervisory convergence.

Although in previous years the CESR activity focused on its role as Advisory Committee of the European Commission, especially in legislative issues, 2006 saw the CESR change tack and move towards cooperation and the operational tasks linked to the application of the European regulation. This is shown by the fact that in 2005 CESR issued 9 advisory reports to the European Commission or to other institutions of the Union with regard to new financial regulations or interpretation of the already existing regulations, as against 2 reports in 2006.

This decrease in the CESR activity tied to financial legislation goes hand-in-hand with its increased role in the coordinated and convergent application of the aforementioned legislation. Changes, which are detailed further on, have therefore been carried out with regard to the CESR's operating method (mediation mechanism), in the setting of internal priorities (working programme) and resources (information technologies) and in its dealings with other institutions and organisations (coordination with the other level 3 committees).

14.2.2 CESR permanent working groups

CESR has 3 permanent working groups: committees formed by all the CESR member countries that carry out functions of checking for inconsistencies and better practices, consultancy or coordination among CESR members.

CESR-Fin

This is the standing committee commissioned with issues of financial information from the securities issuers. In 2006, CESR-Fin focused its efforts on the convergent application of the International Financial Reporting Standards (IFRS). A fundamental feature of this line of work was the continuation of the preparation of standard criteria for application of the IFRS by the CESR members. The subgroup of CESR-Fin commissioned with this work is the so-called EECS (European Enforcers Coordination Sessions), which analyses real decisions of IFRS application by securities commissions and other institutions with terms of reference in this matter (in dubious or more complex cases) and adopt standard criteria that may be useful for other CESR members.

The CNMV has significantly contributed to the number of cases analysed by the EECS in 2006, and the latter is currently setting up a public website where the aforementioned cases, anonymously, can be consulted by the public.

CESR-Pol

The second of the standing committees is in charge of cooperation between CESR in issues of information exchange and cross-border investigations. In recent years CESR-Pol has also placed special emphasis on the fight against market abuse.

In its strive to improve coordination and the common culture among supervisors of securities in issues of market monitoring and prevention of market abuse, in 2006 CESR-Pol created a sub-commission called Market Surveillance and Intelligence Group, to serve as a form of exchanging experiences and market monitoring techniques and prevention of market abuse.

One of CESR-Pol's targets in 2006 was the publication in November of a consultation document that put forward operating guidelines and common criteria in the issue of application of the Market Abuse Directive (Ref. CESR/06-562). As well as other criteria proposed by members of the CESR, this document puts forward elements such as the definition of relevant information, in which cases it is legitimate not to disseminate this information and in which cases the clients' instructions may constitute relevant information.

Review Panel

The duty of the Review Panel is to analyse each country's degree of application of level 3 measures issued by CESR and compare them (standards, guidelines and recommendations). The Review Panel is also entrusted with detecting divergent applications of community regulations or the measures agreed by CESR that could distort the single market or hinder coordination of supervision. This mechanism falls within the peer pressure measures, which are a basic element of supervisory convergence.

Two areas were reviewed in 2006 by the Review Panel: Firstly, the degree of monitoring of the CESR guidelines concerning UCITS was assessed and, secondly, to what measure the CESR members were correctly applying Standard No. 1 on review of financial information from issuers. The results of both analyses are available on the CESR web page (www.cesr.eu).

14.2.3 CESR's actions concerning level 3 and advice to the European Commission

Transparency

One of the two reports stemming from European Commission mandates that CESR finalised in 2006 is the one concerning measures of setting up the Transparency Directive.

As is known, the Transparency Directive requires each country to have at least one Officially Appointed Mechanism, (OAM) for the storage and checking of information that the Directive requires from issuers of securities (financial report, relevant facts, etc.). CESR advised the European Commission in three issues concerning the OAMs:

- The minimum levels of quality for storage of regulated information.
- The interoperability and connection at a Union level between the OAM.
- Costs and funding of the European OAM network.

The results of the advice given (Ref. CESR/06-292) is a series of technical standards governing quality and an architecture proposal to implement the interconnection of the national systems to enable an investor to access the system that stores the regulated information of any European securities issuer.

Ratings agencies: COM mandate to assess compliance with the IOSCO code of conduct

In 2006, the European Commission requested CESR to assess the degree of implantation of the IOSCO code of conduct at the ratings agencies. This code, prepared by the International Organisation of Securities Commissions, establishes a series of detailed recommendations for the ratings agencies, to avoid conflicts of interest and ensure integrity in the credit rating procedure. In 2005, the European Commission decided that the IOSCO code was a suitable scale to measure its take-up by the agencies (or explain the reasons why they did not apply it) and commissioned the CESR to assess its application midway through 2006. The CESR completed its assessment in January 2007 (Ref. CESR/06-545) and concluded that the agencies with relevant activity in Europe had adopted almost all the recommendations of the IOSCO Code, but also pointed out some specific areas susceptible to improvements.

MiFID

Following approval of the Directive and Level 2 Regulations of the MiFID in August 2006, CESR commenced one of its most relevant projects, which will continue in 2007: the implementation of guideline standards (level 3) for the coordinated application of European legislative measures (levels 1 and 2). This end, it set up a special MiFID commission and two sub-commissions to look at market and brokerage issues. The initial tasks have already been submitted to

public consultation at the beginning of 2007 and the developments tied to optimum performance of orders, passport of investment service companies, maintenance of records and definition of incentives received or paid by providers of investment services have been prioritised. Actions in issues of calculations required for application of the MiFID have also commenced (such as block size) and issues of consolidation (integration) of the pre-and post-transparency of information that this Directive imposes.

New instruments for supervisory convergence

As mentioned at the beginning of this chapter, in 2006 CESR commenced a period marked by the emphasis on the supervision convergence. Two measures stand out through their importance and innovation:

Mediation mechanism

In 2005, CESR set up a work group headed by the Chairman of the CNMV, which led to the approval in August 2006 of a mediation mechanism (Ref. CESR/06-286b) designed as an extrajudicial method of ruling on bilateral discrepancies or disputes between securities commissions that are CESR members. The result of this mechanism is not binding, but involves an important element of moral persuasion aimed at finding solutions to problems of interpretation of community legislation or of cooperation between securities commissions. The mechanism contains a mediation protocol that was incorporated into the CESR articles of association and which all members have accepted. Two mediation methods are considered: through a panel of experts that issues a recommendation or through a mediator designated by mutual agreement between the parties.

Interchange of personnel and standard training

Forming part of the conclusions of the so-called Franq Report -as part of the duties of the Financial Services Committee (FSC)-, CESR explored another series of mechanisms targeted at promoting supervisory convergence, in this case the formation of the common supervisory culture. The following two focal points were identified: interchange of personnel between securities commissions and joint training programmes between technical staff of different commissions. Both aspects have been implemented and specific proposals are expected during 2007.

CESR-Tech

It became evident in 2006 that several of the legal requirements introduced through European directives required a significant element of development of information systems. As part of its new role geared more towards operating aspects than regulatory aspects, CESR created a work group called CESR-Tech to coordinate all aspects that link with the implementation and maintenance of common information systems tied to the security supervisors at an EU level. The most relevant (or at least the most immediate) of these is the operational support system

set forth in article 25 of the MiFID. This system will have to allow the competent authorities of the most liquid market of each security to receive transaction reports produced on trading platforms of other countries with regard to these securities.

3L3

A joint protocol was signed in November 2005 between the three level 3 committees (3L3, made up of CEBS, CESR and CEIOPS) to coordinate their activity in those issues of common interest and more specifically the regulation supervision of companies with a presence in the three markets (banking, securities and insurance). The foregoing protocol was implemented during 2006 and several joint endeavours have been carried out, with specific mention of the following: the implementation of application criteria for the community regulations (MiFID level 2) on the outsourcing of services and internal organisation of companies and the uniformity of information requirements (to prevent duplication) by the different supervisors. A study has also commenced with a view to providing subsequent advice for the European commission on the marketing of replacement financial products to retail clients, such as unit links and investment funds.

Other lines of work

The coming into force in 2005 of a new common system of prospectuses in the EU had raised questions and doubts among the market participants with regard to interpretation. As part of the CESR activity at level 3 (agreement between securities commissions not legally binding for the coordinated application of European legislation), a practical Q and A guide was prepared in July 2006 (Ref. CESR/06-296d) for the purpose of clearing up several practical issues of interest concerning issue prospectuses.

With regard to collective investment, two lines of work merit a closer look: The advice given to the European Commission on eligible assets (January 2006, CESR/06-006) in which the UCITS could invest and the criteria governing UCITS notifications between authorities (June 2006, CESR/06-301).

Also in 2006, through a work group called ECONET, CESR looked at aspects concerning economic analysis of the securities markets with a twin perspective: Market trend analysis and, above all, implementation of an impact analysis methodology of the legislative measures on the securities markets or their participants. The result of this second line of work was the impact analysis methodology that in all likelihood will be published in 2007.

14.2.4 International Organisation of Securities Commissions (IOSCO)

The CNMV joined the IOSCO Executive Committee in the bi-annual elections held in June 2006. In accordance with the organisation's articles of association, the IOSCO Executive Committee is the body entrusted with taking all decisions and responsible for implementing all actions required or appropriate to achieve the Organisation's aims.

The Executive Committee comprises 19 members, 8 of which are elected by the four existing Regional Committees (the American continent; Africa-Middle East; Asia-Pacific and Europe), a further 9 members are elected by the current 108 ordinary members that represent the regulators or supervisors of each jurisdiction plus the chairpersons of the Technical Committee and Emerging Markets Committee. The chairman of this Committee is elected from among its members.

The work carried out by the IOSCO Technical Committee in 2006 mainly focused on the implementation of the large number of recommendations that were identified in the report called Strengthening Capital Markets against Financial Fraud, published in 2005 and more popularly known as the Parmalat Report.

Although the aforementioned report came about as the consequence of an analysis of the deficiencies observed in the corporate crisis of Parmalat, the report also analysed other recent corporate crises that shook the financial markets and investors' confidence. The report identified a specific number of critical areas that therefore needed to strengthen technical and regulatory aspects in the tasks commissioned to the securities supervisors and regulators in order to avoid or minimise other possible crises.

The foregoing led to the creation of several specialised work groups, including: the group that specialises in corporate governance, in coordination with the OECD, whose initial work has focused on the independence of boards of directors at listed companies and secondly seeks to carry out a new task on the protection of retail shareholders, and a work group on quality and independence of audit firms that has initially targeted its work at non-audit services.

The work group targeted at Credit Rating Agencies has also been re-launched for the purpose of checking the implementation of the principles laid down in the Code of Conduct for risk rating agencies, prepared by IOSCO, into the internal codes of conduct of these agencies.

The main jobs carried out and subject to an initial stage of public consultation in 2006 with regard to the areas identified in the foregoing report have essentially encompassed:

- The responses to the questionnaire on Internal Control requirements of the Securities Issuers, featuring participation from 43 countries, and which describes the current internal control requirements in these jurisdictions.
- The document on Independence of the Boards of Directors at listed companies with a description of the rules on independence of the boards of directors applicable in the securities markets of different countries.
- The responses to a questionnaire on the regulation of non-audit services and its implication in the independence of auditors.

Other works of interest carried out by IOSCO, with the awareness and acquiescence of the Financial Stability Forum, involved setting up confidential dialogue with those jurisdictions that have a significant role in international transactions, with which

IOSCO members have had negative experiences in the sphere of corporation. The purpose of the initiative undertaken this year with a specific number of jurisdictions was to identify legislative aspects, through technical assistance, that prevent these jurisdictions from exchanging information necessary for compliance with the tasks commissioned to the regulators pursuing irregular conduct in the markets.

It is appropriate to pinpoint the importance of the implementation of the IOSCO Principles, given that compliance with the IOSCO Principles is analysed and assessed by the International Monetary Fund within the framework of the Financial Systems Assessment Programmes (FSAP).

With regard to the works carried out by the standing committees, dependent on the Technical Committee, it is appropriate to highlight the activities and documents listed hereunder, in which the CNMV, as a member of this Committee, actively participates.

Accounting, auditing and information disclosure (Standing Committee 1)

Accountancy standards

Within this sphere, the most significant aspect was the set-up of a centralised database at the IOSCO Secretariat General, which is interactive for all members and will enable the exchange of experiences on interpretation and application of the IFRS. The format and content of this database is similar to the one set up by the European Committee of Securities Regulators for EU members.

Fixed-income prospectus

Finally, IOSCO approved the Document the lays down the debt disclosure principles.

Auditing standards

The most relevant activities of the work group encompassed:

- The tracking of activity and implementation of new international standards of auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) as part of its Clarity Project, for the purpose of providing greater clarity and uniformity to the standards.
- Evaluation and possible approval by IOSCO of the International Auditing Standards.
- Monitoring of the activity of the IFAC Ethics Committee (IESBA), whose most significant project involves improving the independence requirements of the IFAC Code of ethics. The IESBA project deals with numerous issues such as the rotation of auditors and cooling-off periods, compensation to shareholders, non-audit services, valuations, information technology services, corporate finance services, etc.

Another relevant issue within the Audit sphere was the incorporation of a new international organisation called IFIAR- *International Forum of Independent Audit Regulators*, officially incorporated by 18 countries in September 2006 in Paris. The Spanish Instituto de Contabilidad y Auditoría de Cuentas (ICAC) has become a member of this Forum. The aims of this organisation are to share knowledge of the audit market and practical experiences in the supervision of the regulatory activity of auditors, promote collaboration in supervision and provide a mechanism to make contact with other international organisations interested in the quality of auditing.

Secondary markets (Standing Committee 2)

The publication of a document called *Regulatory issues arising from exchange evolution* is worthy of note. The report reviews aspects of regulation that could arise with the demutualization of exchanges and their conversion into participants with profit aims and in some way completes the analysis on demutualization, which commenced with the publication in June 2001 of the report known as the *Issues paper on exchange demutualization*.

Intermediates (Standing Committee 3)

Here we should mention the publication of the document called *Compliance Function at Market Intermediaries*. The document sets forth a number of principles for intermediaries, which complement those that already exist, together with measures to be put in place in order to help market intermediaries improve regulatory compliance.

Inspection and information exchange (Standing Committee 4)

As a consequence of the 2010 deadline, established by the organisation to enable all its members to be signatories to the *Multilateral Agreement on Enquiry, Cooperation and Information Exchange, IOSCO Multilateral MOU*, this work group significantly intensified the work of checking a large number of requests for affiliation to the agreement.

New members joining the Organisation also requires compliance with the requisites laid down in the agreement in issues of cooperation and information exchange, which has increased the workload.

Collective Investment Schemes (Standing Committee 5)

Chief among the works carried out by this group is the publication of the following documents:

Principles of governance of collective investment schemes. A document that details the different legal structures that the IIC can adopt, distinguishing between two models: contractual and company. It analyses the structure and operation of the different IIC (and collective investment management companies) as well as the review of their activity by an “independent” entity (depository, auditor, etc.) A

second part of the report looks at aspects concerning criteria of independence, powers and functions of the independent supervision bodies and encompasses fundamental aspects of governance of collective investment schemes, such as the concept of independence (definition and vital characteristics).

The regulatory environment of hedge funds. This updates the work carried out in 2003 concerning *Regulatory and investor protection issues arising from the participation by retail investors in (funds of) hedge funds*, either as a consequence of the legislative developments in this issue, carried out by different members, or concerning the participation of the retail investor in hedge funds.

The group also initiated new work in 2006 on the assessment and administration of hedge funds.

2006 also saw the group commence new work, currently at the public consultation stage, on the Soft Commissions Arrangements. The document identifies and assesses the key issues of concern for the regulators or supervisors of securities and looks at the possible conflicts of interest that could stem from these agreements.

The Public Interest Oversight Board (PIOB), governing standards of auditing, professional ethics and related issues

The Public Interest Oversight Board (PIOB) was set up in Spain in 2005 under the auspices of Spanish legislation governing foundations. Since then the Secretariat-General has had its permanent headquarters here.

The PIOB is a board of experts with wide-ranging experience in audit matters and the purpose of which is to supervise the integrity of the preparation of international standards of auditing within the technical, ethical and educational spheres prepared by the three committees (IAASB, IAESB and IESBA) that form part of the International Federation of Accountants (IFAC). The PIOB is therefore an organisation put in place to oversee and determine to what degree the organisations, members of the IFAC, comply with their obligations, including compliance and application of the aforementioned standards.

The first report from the PIOB was published in 2006, highlighting the main activities carried out since its inception: the organisation and performance of a comprehensive and active supervision scheme with regard to activities of public interest signed with the IFAC; the physical and legal incorporation of the organisation within Spanish legislation; the promotion of the existence of the PIOB at different public forums and also the establishment of close links with other relevant authorities in these issues.

The PIOB report likewise underscores two important reasons concerning the creation of the PIOB and the tasks commissioned to this body: the former, with regard to independent supervision of the procedure, through which these standards are created, has gone a long way to restoring the public's confidence in general, in the quality of the financial reports that reach the capitals markets, and the latter, that greater adoption and application of these international standards worldwide will bolster national and international financial stability.

14.2.5 Other international forums

In 2006, the CNMV actively took part at different international forums, likewise contributing to several projects. A brief description of the scope of this participation is given hereunder, as well as the contribution of the CNMV, with an indication of those documents or reports prepared or under preparation in 2006.

Joint Forum

The CNMV is a founding member of this international forum of regulators from all three financial sectors: banking, securities and insurance. The objective of the Joint Forum is to study aspects relating to financial conglomerates and their potential influence on financial stability from an inter-sector, cross-border standpoint. Likewise, with the foregoing aim and through work groups, the Joint Forum prepares reports on mandates received either from the Parent Committees -Basle Committee, IOSCO and IAIS- or from the Financial Stability Forum. The most relevant actions in 2006 are listed below:

- a) The report on Regulatory and Market Differences was published in May 2006. The regulatory differences were explained in the context of the convergence of market practices of financial conglomerates. The work group and the subsequent document focused on regulatory aspects concerning the response of regulation to risk management. The main conclusion of the report shows that the existing differences throw down challenges for both financial conglomerates as well as regulators with regard to assessment and management of risk concentrations as well as transfers of intergroup risk.
- b) May 2006 also saw publication of the Management of Liquidity Risk in Financial Groups report published, which presents the conclusions of the working group on practices of financial conglomerates in liquidity risk management. Among other respects, the report analyses the following issues: the management of the liquidity risk of financial conglomerates via different jurisdictions, sectors and subsidiaries; the impact on management of regulation liquidity and the supervisors and the liquidity shocks scale and the measures that the participants have set up to tackle these.
- c) In August 2006, in response to a subpoena from the Financial Stability Forum, the report on High Level Principles for Business Continuity was published. The publication analyses 7 general principles on which the action of the regulators and the financial institutions in the management of business continuity could be based. The report also includes the analysis of different practical cases as well as the lessons learned from these. Lastly, we must mention that together with the IMF, the CNMV has contributed in the translation of the foregoing document into Spanish.

In a similar fashion, the Joint Forum has continued working on new mandates throughout 2006 which are scheduled to finalise during 2007. The working group on industry practices and regulators in the marketing of financial products to retail investors and the working group on risk concentrations and its management by the financial institutions both merit a mention. The CNMV actively participates in both

groups, in coordination with other Spanish regulators whenever required: The Bank of Spain and the Directorate-General of Insurance and Pension Funds.

14.3 Cooperation with Latin America

Bilateral technical assistance to the Latin American regulators continued during 2006, through solving technical enquiries, dealing with visitors or through advice from some of the CNMV's staff that have moved to Latin America countries to analyse different situations in person and prepare proposals. One of the outstanding projects was the one carried out in Colombia on regulation and supervision of rules of conduct of the financial intermediaries.

As in previous years, the CNMV has continued collaborating in the application of the IOSCO Strategic Plan of evaluation of compliance with its Objectives and Principles on a worldwide stage, but with special emphasis on Latin American countries. In 2006, a CNMV expert took part in the IOSCO missions for the assessment of Uruguay and Peru, as well as the one carried out in Costa Rica together with First Initiative (World Bank) within the sphere of the IOSCO MMoU.

The CNMV also attended meetings of the Council of Securities Regulators of the Americas (COSRA) as an observer, in which issues of common interest were debated. Following the amendment of the COSRA articles of association in 2006, the door was opened to allow the CNMV to join this organisation as an associate member.

Instituto Iberoamericano del Mercado de Valores

Although this is an institution with its own full legal personality and complete functional independence, the collaboration between the CNMV and the Fundación Instituto Iberoamericano de Mercados de Valores (IIMV) is extremely close and boasts common objectives. Some of the activities carried out by the Institute in issues of the securities markets are summarised here.

June 2006 and in compliance with its objectives, the IIMV performed a range of actions targeted at driving progress in modernisation of the Latin American securities markets, through improved awareness of the structure and the legal framework and fostering greater cooperation between the organisations commissioned with their supervision and regulation.

To this end, the Institute promoted and carried out 11 training and dissemination activities in which areas of common interest in Latin America were analysed, such as:

- Investor protection, both from the information standpoint as well as from that of raising investor awareness.
- The legal framework and international standards of the depository and custody entities in securities markets, as well as the hedging mechanisms of the clearing and settlement systems, the securities loan and the duties of the central securities depositories.

- Control and supervision of the products and derivatives markets, as well as new trading segments.
- Dissemination of the XBRL standard, a computer language that enables information of a financial and business scope from different sources and formats to be compared, thus reducing the risk of manual data entry and facilitating the analysis of this information.
- The overseeing, inspection and disciplinary procedures and operations.
- The development of collective investment in Latin America.
- Within the technological sphere, the security of computer systems, as well as the development of new applications and tools for the dissemination of information.

En estas once actividades presenciales han tomado parte 212 funcionarios iberoamericanos de comisiones de valores pertenecientes a 19 países, en las que hay que destacar la especial ayuda recibida por parte de la Agencia Española de Cooperación Internacional (AECI) en las acciones formativas organizadas en los Centros de Formación de Guatemala, Colombia y Bolivia.

212 securities commission personnel from 19 countries took part in these 11 activities, and special mention should be made of the aid received from Agencia Española de Cooperación Internacional (AECI) and the training organised at the Training Centres of Guatemala, Colombia and Bolivia.

Within the scope of corporation, the IIMV prepared and published the *Comparative study of the collective investment industry in Latin America*. This is a collective effort, carried out thanks to the collaboration and endeavours of staff from 15 supervisory organisations and the sector representative bodies that took part in the project, in which the performance as well as the determining factors of implementation of the collective investment schemes in the region were analysed², such as the economic reality of the country, the role of the tax burdens and the practices set up in the marketing of funds, among a great many other issues. The study also has a statistical base that facilitates understanding of the size and structure of the sector in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Spain, Honduras, Mexico, Panama, Peru, Portugal and Venezuela, and includes comparative tables that show the main legislative characteristics of each of the countries analysed.

2. Split into large sections, the issues dealt with are: the institutional organisation of the industry and its supervision, the investment policies of collective investment schemes, taxation, the prospectus or offer document, supply of information and marketing of the collective investment schemes.

V CNMV: Organisational, finance and institutional aspects

15 Organisation

As indicated in chapter 12, in 2006 the Directorate of Investors ceased to be affiliated to the Directorate General of Markets. There were no further changes to the structure or names of the CNMV directorates¹. Other less important organisational changes have included the creation of the Sub-directorate of Human Resources tied to the General Secretariat and the Sub-directorate of Investor Information and Education as part of the Directorate of Investors.

The CNMV continued to invest in bigger and better resources in order to carry out its missions. The move of the Board and all of the General Directorates to new premises at c/ Serrano, 47 has finalised the initial stage of the CNMV restructuring plan, which is set to continue in 2007 with the refurbishment of the old headquarters at c/ Castellana, 19.

15.1 Human Resources

A set of actions concerning human resources has been put into place this year. The main one involved the creation of the Department of Human Resources as part of the General Secretariat. Specific actions are being carried out with regard to training and the head of the department is participating on the task force set up at CESR to facilitate the exchange of human resources between EU supervisors.

CNMV staff: Composition by professional category

TABLE 15.1

Number of employees at 31 December

	2005	2006
Services	9	10
Clerical / Computer operators	64	65
Technical	275	271
Management	21	21
Total	369	367

Source: CNMV

1. On 1 March 2007, the Board agreed to appoint new directors at the Directorates of Secondary Markets, Investors, International Affairs and Supervision. The new names of these directorates are shown in the organisational chart of the organisational annex.

Breakdown of CNMV staff by division

TABLE 15.2

Number of employees at 31 December		
	2005	2006
Directorates-General:	256	251
Securities Market Participants	118	113
Markets and Investors	98	98
Legal Counsel	40	40
Directorates	99	100
Board	14	16
Total	369	367

Source: CNMV

At the end of 2006, the CNMV had a workforce of 367 employees, in line with the previous year's figure, a year in which there was a 16% growth in the number of employees. This was due to the fact that the number of new CNMV staff members through selection processes was relatively low, slightly exceeded by payroll removals over the year.

15.2 Information systems

CNMV's efforts in 2006 with regard to information systems was focused on strengthening its e-government and the technological renewal of equipment.

By virtue of the "CNMV Board Agreement dated 15 September 2006, regarding the adaptation of the CIFRADOCC/CNMV system to the certification and recognised e-signature services and the creation of the CNMV Online Register" the new e-government has been regulated on the basis of the recognised electronic signature. This has meant that CIFRADOCC/CNMV users have had to adapt the new service by requesting a new e-certificate showing the individual's legal status.

The Agreement also allows e-government to be available online, not only to CIFRADOCC/CNMV users, entities supervised by the CNMV, but anybody that has an e-certificate or electronic ID. These users can send administrative appeals, complaints, enquiries, accusations and, in general, any missive or communication with a recognised electronic signature.

The CIFRADOCC/CNMV service also incorporated two important procedures in 2006: the electronic fixed-income prospectus form and the foreign collective investment schemes form.

The electronic fixed-income prospectus form represents groundbreaking innovation as it incorporates this technology into the issue prospectuses, previously used successfully with the collective investment schemes prospectuses. The regulatory changes have enabled this to be put into place as a result.

All of the registration formalities of the foreign collective investment schemes must be carried out online.

Several computer applications of those engaged in market supervision were renewed.

The regulatory change of collective investment schemes has meant that we have needed to continue adapting the corresponding applications. This involved modification of both the form (e-prospectus) as well as supervision of these market participants.

Within the sphere of information dissemination, the website has been updated to include the new corporate image and the presentation of some web sections has been optimised.

The reception and dissemination of periodic public information of listed companies has continued through the use of XBRL, as the standard for exchanging financial information. Together with the Bank of Spain and the Instituto Iberoamericano de Mercados de Valores, several congresses and conferences were organised to raise awareness of XBRL in Latin America.

The computer equipment has been partially renewed in the quest for better physical and logical security and appropriate technological progress.

15.3 Relocation of CNMV units and services

As mentioned in the 2005 Annual Report, the 2006-2009 CNMV multi-year programme includes the strengthening, adaptation and optimisation of its physical infrastructures as one of its main objectives, to enable the CNMV to equip its offices in line with its duties.

A twin approach has been set up: Firstly, the extensive remodelling of the building located at Castellana 19, which will enable the building and its facilities to adapt to new requirements and, secondly, as a preliminary stage to the foregoing, the relocation of the CNMV units at c/ Serrano, 47, where refurbishment works have already been carried out on the leased 2,410 m² over five storeys, added to the three that the CNMV already had in this building. The entire building has been equipped with the latest computer and voice over IP network technologies.

Throughout 2006, the Board, the Presidency, the Directorate-General of Markets and the Directorate-General of Legal Counsel have set up operations at *Torre Serrano*, thus enabling the three Departments and the Board to be located in a single building.

Elsewhere, the basic project of the remodelling works for the Castellana 19 building is now available and has been approved by the Institutional Commission for the protection of Historic-Artistic and Natural Heritage of the Madrid City Council. Having obtained this favourable report, the modification file of the Urban General Development Plan is currently being processed by the Madrid Council.

The remaining units that have not as yet moved to the Serrano 47 building are provisionally located at Castellana 19, and shall be moved to other premises, currently leased, in the second half of 2007 to enable refurbishment of Castellana 19.

15.4 New corporate image

The new corporate image was launched in 2006. This image unifies the presentation of written notifications from the CNMV, its reports and publications. The new image was incorporated into publications published by the Commission throughout 2006.

16 Finances

16.1 Revenues and expenses

In 2006, the CNMV obtained 49.6 million euros in revenues and incurred 35.9 million euros in expenses; therefore, the surplus for the year amounted to 13.7 million euros.

The bulk of the Commission's revenues was from the collection of fees totalling 46.3 million euros, 10.2% down on the previous year.

The other revenues were mainly from interest and, to a lesser extent, from the sale of publications and other sources (professional information channels, recovery of publishing expenses, delisting notices in BORME and administrative contracts, etc.)

Total expenses increased by 20.1%. Staff overheads, which represented 62.1% of total expenditure, were up 12.5% as a consequence of an 11.7% increase to the average workforce size.

Other expenditure entries were up 35.2% year-on-year. Other management expenses increased by 41.9%, mainly in the areas of leasing and the purchase of material that could not be capitalised. The increase of leasing expenses as a consequence of leasing new offices in the second half of 2005 to cover the CNMV's space requirements resulting from a significant increase to the workforce, as well as the temporary relocation of staff during the scheduled renovation of the headquarters. With regard to the non-capitalisable material, this increase mainly reflects the material, computer and security fixtures and fittings carried out during 2006 at the leased offices.

On 20 January and 29 September 2006, at the request of the CNMV, the Government agreed to distribute the results for 2004 and 2005, by establishing that 10,020,991.79 euros and 12,682,331.36 euros, respectively, be paid to the Treasury.

16.2 Fee structure

Table 16.1 shows the fees for the various services that the CNMV performs. Revenues through fees were down 10.2% in 2006.

This decrease is explained by the coming into force of Law 23/2005, dated 18 November, governing reforms in tax issues in order to drive productivity which, on

the one hand reduces the rate applicable to fixed income balances held at Iberclear by half, leading to a 26.1% decrease under this heading, and on the other hand imposes maximum limits on the fees for vetting the entry requirements to the AIAF, leading to a decrease in amounts collected of 75.7%.

CNMV fee revenues

TABLE 16.1

Thousand euros			
Activity or service	2005	2006	% chg. 06/05
Registration of prospectuses and market participants	14,360.5	10,905.5	-24.1%
Prospectus registration	13,201.4	8,693.5	-34.1%
Issue prospectuses	5,912.2	6,528.2	10.4%
Listing prospectuses	545.7	526.7	-3.5%
Vetting of AIAF listing requirements	6,743.5	1,638.6	-75.7%
Market participant registration	572.8	1,093.1	90.8%
Authorisation of takeover bids	586.3	1,119.0	90.9%
Market supervision	25,123.2	22,037.8	-12.3%
Members of AIAF	157.1	184.5	17.4%
Iberclear members	18,858.6	13,942.1	-26.1%
Stock exchange members	5,787.0	7,544.5	30.4%
MEFF RF members	3.0	2.7	-8.6%
MEFF RV members	316.6	363.0	14.7%
MFAO members	0.9	1.0	10.1%
Market participant supervision	12,086.0	13,357.0	10.5%
IIC supervision	11,226.4	12,350.4	10.0%
FIM and FIAMM	9,840.2	10,751.0	9.3%
SIM and SIMCAV	1,172.6	1,291.7	10.2%
Real estate investment funds	209.5	292.9	39.8%
Real estate investment companies	4.1	14.8	260.7%
Supervision of IIC and FTH operators	223.8	239.4	7.0%
IIC operators	213.0	227.6	6.8%
Securitisation fund operators	10.8	11.9	9.8%
Supervision of investment firms	635.8	767.2	20.7%
Portfolio management companies	16.0	15.9	-0.8%
Broker-dealers and brokers	619.8	751.3	21.2%
Issuance of certificates	0.8	6.8	744.5%
Total	51,570.5	46,307.1	-10.2%

Source: CNMV

Revenue from short-term financial investments totalled 2.4 million euros, up 31.2% as a result of interest rate rises.

The drastic fall in revenue through the foregoing items was partially offset by the increased fees for supervision of collective investment schemes (10.0%), fees for supervision of stock exchange members (30.4%) and the investment fund registration fee (816.14%), mainly as a consequence of the legal obligation to register the old FIAMM as investment funds on the CNMV official records.

17 National Securities Numbering Agency (ANCV)

The CNMV discharges the functions of the National Securities Numbering Agency (ANCV), whose main goal is to administer International Securities Identification Numbers (ISIN) and to facilitate their dissemination and use to all users. The ANCV is a full member of the International Association of National Numbering Agencies (ANNA).

Greater awareness, dissemination and acceptance of the ISIN and CFI¹ codes by the securities markets participant, both domestic as well as foreign, contributed to significant activity by the ANCV in 2006. The ISIN code in Spain is used as the first identifier at a trading, clearing and settlement of securities level.

Number of securities and other coded financial instruments

TABLE 17.1

	Listed			Total		
	2005	2006	% chg.	2005	2006	% chg.
Public debt ²	256	256	0.0	260	260	0.0
Equities ³	3,335	3,377	1.3	13,468	13,677	1.6
Debentures	372	394	5.9	465	473	1.7
Bonds	761	1,049	37.8	790	1,100	39.2
Covered bonds	83	112	34.9	120	151	25.8
Commercial paper	1,788	2,315	29.5	1,788	2,315	29.5
Warrants	804	1,167	45.1	807	1,208	49.7
Treasury Bills	9	9	0.0	9	9	0.0
Options	1,647	1,905	15.7	1,647	1,905	15.7
Futures	43	45	4.7	43	45	4.7
Total	9,098	10,629	16.8	19,397	21,143	9.0

Source: CNMV

1. At 31 December. ANCV database. ISIN code
2. Except Treasury Bills
3. Shares, mutual fund shares and other equities

The ANCV database movements (additions, disposals and amendments) increased by 29.2% in relation to 2005, up to 26,490 references. Although the increase affected all categories of securities, we should highlight the increase in fixed income, warrants and options contracts.

The fixed-income primary market, above all private, was extremely dynamic and no more so than with the securitisation bond issues, mortgage debentures and commercial papers. These helped to significantly increase the number of ISIN codes allocated to these kinds of securities. We must also point to the increase in the number of warrant issues, confirming the trend from previous years. There was also a highlighted increase in the volume of coded options contracts within the financial derivatives market.

At the end of the year, the number of securities and other financial instruments with an ISIN code in force totalled 21,143, up 9% year-on-year. The listed securities and financial instruments accounted for 50.3% of the total.

With respect to the number of queries handled by the ANCV, the trend observed in previous years was maintained. Users rely more and more on the web page to obtain information and this has led to a decrease in the number of enquiries handled directly by the ANCV. In 2006, the total number of enquiries was 765 as against 916 in 2005 and 1,162 in 2004. 79% of enquiries referred to national codes and the remainder to foreign codes.

Queries handled directly by the ANCV

TABLE 17.2

	2005	2006	% chg.
CSpanish codes	636	601	-5.5
Foreign codes	280	164	-41.4
Total	916	765	-16.5

Source: CNMV

18 CNMV Advisory Committee

18.1. Introduction

The CNMV Advisory Committee, which is regulated through articles 22 and 23 of the Stock Market Law, is the body which provides advice to the Board. Its opinion must be sought in the following cases:

- Approval of CNMV Circulars.
- Imposition of penalties for very serious violations.
- Authorisation, revocation and mergers and takeovers of investment firms.
- Authorisation, revocation and company operations of branches of investment firms from non-EU Member States.

In addition to its consultative role to the Board, the Advisory Committee provides advice on draft regulations, generally concerning the securities markets and which are referred by the Government or the Ministry of Finance.

Moreover, for the purpose of driving greater participation of the sector, the CNMV decided to strengthen the Advisory Committee, not only as a consultative body of the CNMV Board, but also with other issues concerning the international sphere and the operation of the markets and, in this way, enquiries of a voluntary or non-compulsory nature are habitually included in the Committee's agenda, basically belonging to the following categories:

- Enquiries of an international nature (from the CESR, IOSCO and the European Commission).
- Enquiries concerning a variety of initiatives from the CNMV or the Committee.

The composition of the Advisory Committee is shown in the annex listing the CNMV organisation.

Advisory (consultative) Committees (bodies) outside Spain

Just as the CNMV receives advice from the Advisory Committee in Spain, other securities regulators in surrounding countries have similar bodies.

In France, the AMF Board has the power to set up commissions and advisory bodies that assist in its deliberations concerning the development of financial markets. There are currently five commissions of this kind in operation, comprising experts appointed for a period of three years and led by chairman and a vice-chairman elected from among the members of the AMF Board. These advisory committees handle the following issues: markets, clearance, custody and settlement, asset management, breakdown of information on corporate operations and protection of retail investors.

In Germany there is an Advisory Board, comprising 24 experts from finance, banking and insurance, as well as consumers associations and the Bundesbank, which is responsible for advising the BaFin in issues concerning its supervisory tasks.

In the United Kingdom the FSA Board has two committees: The regulatory decisions committee and the advisory committee for the admission of securities. The former is in charge of investigation and recommendation, while those of the Board entail decision-taking and the issue of rulings. It reports directly to the FSA Board and it is the Board that appoints the Chairman and its 17 members. Elsewhere, the advisory committee for the admission of securities, with 20 members, is in charge of advising the FSA on the admission of new securities for trading. In addition, the FSA has three consultancy panels: consumer, financial service professionals and small enterprises.

The Committee of European Securities Regulators (CESR) set up an Advisory Panel in June 2002, following a suggestion from the European Parliament and the Committee of Experts headed by Alexander Lamfalussy. The role of the Panel is as follows:

- To assist the CESR in defining priorities within its work schedule and comment on the way in which CESR carries out its duties.
- To alert the CESR of regulatory inconsistencies in the Single Market, to identify and suggest areas in which the CESR should carry out additional work to enhance coordination between supervisors.
- To inform the CESR of relevant developments in the financial markets and identify new elements for preliminary discussion at the CESR.

The panel usually meets three times a year, one of which is a plenary session with the CESR members. There are 15 members and its composition has changed in accordance with the strategic issues of the CESR in the medium term, viz., there is certain flexibility with regard to a small number of members.

Source: Web pages of AMF, BaFin, FSA and CESR.

18.2. Actions carried out by the Committee in 2006

The action of the Advisory Committee in 2006 can be summed up as follows:

- Compulsory reports on standards: 9
- Proposals for very serious penalties: 10
- ESI operations: 12
- Voluntary enquiries 8

List of actions carried out by the Advisory Committee in 2006

Date	Compulsory reports on standards	Proposals for very serious penalties	ESI business and branch operations	Enquiries concerning other issues
January 09/01/06		Penalty 1 for use of inside information.	Amendment of the activity programme of Riva y García-1877, SV, SA.	
February 13/02/06	Ministerial Order on official secondary markets of financial derivative instruments on energy.	Penalty 2 for use of inside information.	Merger through absorption of Espirito Santo Investment, SA, SV by Banco Espirito Santo de Invertemiento, SA.	
	Ministerial Order on hedge funds.			
	Circular on hedge funds.			
March 01/03/06				Unified coding of recommendations on good governance of listed companies.
March 13/03/06	Ministerial Order on the Agreements of the Promotion of Asset Securitisation Funds to favour business funding.		Authorisation for transformation of Agentes de Bolsa Asociados, A.V., S.A. into a securities broker-dealer and amendment of its activities schedule.	

List of actions carried out by the Advisory Committee in 2006 (continuation)

Date	Compulsory reports on standards	Proposals for very serious penalties	ESI business and branch operations	Enquiries concerning other issues
			Authorisation of Alpha Finanzas Agencia de Valores, S.A.	
			Authorisation of the amendments to articles of Association of Fineco, S.V., S.A. through reduction of share capital.	
April 10/04/06		Penalty 3 for market abuse.	Authorisation for modification of the activities schedule of CM Capital Markets Bolsa S.V., S.A.	CESR questionnaire on publication of prices, pre- and post-trading, motivated by the possible fragmentation of the market once the MiFID comes into force.
		Penalty 4 for breach of codes of conduct.		
May 08/05/06		Penalty 5 for breach of codes of conduct.		IOSCO document on demutualization of stock exchanges and regulatory implications.
June 12/06/06	CNMV Circular on information on foreign collective investment schemes.	Penalty 6 for inside information and breach of codes of conduct.		
July 10/07/06	Draft bill for modification of the Stock Market Law for amendment of the rules governing transparency and takeover bids.	Penalty 7 for breach of codes of conduct.		

List of actions carried out by the Advisory Committee in 2006 (continuation)

CNMV: Organisational,
finance and institutional
aspects
CNMV Advisory Committee

Date	Compulsory reports on standards	Proposals for very serious penalties	ESI business and branch operations	Enquiries concerning other issues
September 11/09/06	Royal Decree through which articles 31, 44 b and the Seventeenth Additional Provision of Law 24/1988, dated 28 July, governing the Securities Market are implemented and through which different rules of the financial sector are amended.		Authorisations for modification of the articles of Association of Dexia Equities España, S.A., Securities Broker, through share capital reduction.	Enquiry from the European Commission on transparency of pre-and post-trading of financial instruments other than equities.
			Authorisation of Selección e inversiones de capital global Agencia de Valores, S.A.	Enquiry from CESR on appraisal of the supervisory functions in the European Union with regard to market abuse rules.
October 09/10/06	CNMV Circular on prospectuses of the collective investment schemes.	Penalty 8 for breach of significant shareholdings rules.	Authorisation for the merger through absorption of Beta Capital, S.V., S.A. by Beta Capital Meespierson, S.L.	
			Authorisation for the merger through absorption of Eurosafei, S.V., S.A., Euroactivos, A.V., S.A. and Inversis Intermediarios Financieros, A.V., S.A. by Banco Inversis Net, S.A.	
November 13/11/06		Penalty 9 for breach of codes of conduct.	Authorisation for the merger through absorption of AB Asesores Bursátiles Córdoba, S.A. by Morgan Stanley, S.V., S.A.	CESR- Enquiry concerning the minimum records to be demanded from the Investment Services Firms pursuant to article 51(3) of the MiFID
			Authorisation for Lombard Odier Darier Hentsch&Cie (Spain), S.V., S.A.	

List of actions carried out by the Advisory Committee in 2006 (continuation)

Date	Compulsory reports on standards	Proposals for very serious penalties	ESI business and branch operations	Enquiries concerning other issues
December 11/12/06	Draft bill of the Mortgage Market Update Act, governing regulation of reverse mortgages and the protection of dependence.	Penalty 10 for breach of codes of conduct.		CESR-Enquiry into publication of information and consolidation of market transparency with the MiFID. Proposal for amendment of the regulations concerning the Advisory Committee.

18.3. Reports issued by the Advisory Committee

Below we include a brief comment on the different reports issued by the Advisory Committee in response to the enquiries on which its opinion was sought; the comments are for merely illustrative purposes and do not reflect the in-depth observations issued in each report. The reports have been grouped into five sections according to the source of the petitioner:

- a) Enquiries from CESR
- b) Enquiries from IOSCO
- c) Enquiries from the European Commission
- d) Enquiries from the CNMV Board and the Directorate-General of Finance and Financial Policy (DGTPF)
- e) Other reports

a) Enquiries from CESR

a1) CESR questionnaire on publication of prices, pre-and post-trading, motivated by the possible fragmentation of the market once the MiFID comes into force

The Advisory Committee was of the opinion that regardless of continued examination of different possibilities and factors to be taken into account for this possible consolidation, priority should be focused on defining the Information Systems to which the different price generating sources will have to adapt, in order

to safeguard uniform supervision and transparency with regard to details placed at the disposal of all users.

a2) Enquiry from CESR on appraisal of the supervisory functions in the European Union with regard to market abuse rules

The Advisory Committee placed emphasis on the appropriateness of no regulatory arbitration whatsoever existing in issues of supervision of the market abuse rules. The disciplinary system applicable in different countries and their criteria application should also be subject to review. A further aspect to be considered is the acceptance of market practices. Elsewhere, the different types of securities must be taken into consideration when it comes to preparing rules and carrying out supervision. Finally, it is highly appropriate and apt to prepare guides or references both for CESR members as well as the market in general on what constitutes “inside information” according to the Directive and when the information becomes privileged; when the volume orders from clients are considered “inside information” and when there are legitimate reasons to delay publication of information, as well as with regard to the application of initiated lists.

a3) CESR- Enquiry concerning the minimum records to be demanded from the Investment Services Firms pursuant to article 51(3) of the MiFID

The list of records proposed by CESR was considered appropriate although: (i) it must be made clear that this list does not exclude other records that are legally required through other regulations; (ii) there is no obligation to create formally considered records; (iii) the records of periodic reports to clients, concerning commercial operations, concerning operations of the firm and its internal organisation and politics and procedures of compliance should not be demanded; and (iv) creating a record of investment consultancy is not considered useful.

a4) CESR - Enquiry on publication of information and consolidation of market transparency with the MiFID

The Advisory Committee believed that setting up systems that enable systematic monitoring would help to minimise the potential risk of publishing erroneous information. The Committee agrees with the CESR that there is no need for the vetting process to be external. Elsewhere it believed that a single identifier per transaction should be designed. The existence of specific regulations with regard to the responsibility in notification of transactions carried out outside the regulated markets and multilateral trading systems would minimise the risk of duplication of transactions notified. That all entities that have the obligation to publish information must have a solution for contingency situations, even though they should carry out a cost-benefit analysis, is valued positively. With regard to use of the websites, the Advisory Commission believes that a static website does not satisfy the MiFID requirements.

b) Enquiries from IOSCO

b1) IOSCO document on the demutualization of stock exchanges and regulatory implications

The Advisory Committee of the CNMV declared its concern in light of possible changes that originate in the sector in so far as they may represent an increase of rates, motivated by shareholders' pressure on market results not accompanied by an improvement in the provision of a public service. Given that different trading platforms other than the regulated markets exist in Europe, the Advisory Committee believed that the principles that govern markets, or which may be established for the market, must be applicable to all operators. Three issues were considered to have special relevance in this issue: (i) corporate governance; (ii) demand for shareholders' equity; and (iii) registration, clearance and settlement.

c) Enquiries from the European Commission

c1) Enquiry from the European Commission on transparency of pre- and post-trading of financial instruments other than equities

The Advisory Committee thought that a system of transparency similar to the one established for equities in the MiFID should be applied to other equity markets, although the particularities of the debentures markets and derivatives markets should be taken into consideration when setting these requirements. It is accepted that transparency will have a cost, but its benefits will outweigh this providing information is consolidated.

d) Enquiries from the CNMV Board and the Directorate-General of Finance and Financial Policy (DGTPF)

d1) Ministerial Order on official secondary markets of financial derivative instruments on energy

It was considered important for the Order to include opinions from the sector and from spot market experts. The possibility that an official secondary market could launch or simply register, clear and settle derivative contracts on energy without the need to set up a new Governing Body was put forward. Elsewhere, it was thought necessary to set up an institutional collaboration structure between the CNMV and the National Energy Commission (CNE). The demands for shareholders' equity at the time of market authorisation (9 million euros) were seen as excessive. Industrial members are requested to have minimum shareholders' equity of 300 thousand euros, an amount that seems high in comparison with the 100 thousand euros of the MEFF equities. There was a proposal to include the demands for shareholders' equity in the Market Regulations, as well as lowering the amount.

d2) Ministerial Order on hedge funds

The Advisory Committee positively values the Ministerial Order, both because of its technical level as well as its focus, which seemed sufficiently open and flexible to

propitiate proper development of this interesting new sector of collective investment. The committee also thought, however: (i) that the possibility that the funds of hedge funds could invest in a collective investment schemes in countries outside the OCDE or which have an advisory body subject to supervision in an OCDE country should be anticipated; (ii) that the possibility of in-kind payments was unjustifiably restricted; (iii) that the maximum deadlines for notice and liquidity of the collective investment schemes were extremely restricted; and (iv) that the concept of “sub-custody” (second-degree deposit) did not seem very suitable.

d3) Circular on hedge funds

The Advisory Committee believed that the CNMV was going to have a wide margin to assess whether a collective investment management company satisfies the requirements to manage hedge funds and funds of hedge funds and encouraged it to keep the promotion of the industry in mind. More specific remarks included: (i) the internal control measures must be shown in the “report” and not in the “schedule of activities”; (ii) the provision of a guarantee from an institution with a specific rating level could be recognised as a valid alternative to reinforce shareholders’ equity; (iii) the meaning with regard to the sub-custody agreement needs to be cleared up as the idea of sub-custody (second-degree deposit) does not seem very suitable; (iv) it must be made clear that the selection criteria of hedge funds that must be shown in the prospectus are only those criteria of a general nature; (v) the possibility of in-kind payments is unjustifiably restricted; and (vi) the deadlines for notice and liquidity continue to be extremely restricted.

d4) Ministerial Order on the Agreements of the Promotion of Asset Securitisation Funds to favour business funding

The Advisory Committee prepared the following report: “With regard to this proposal, the Advisory Committee has analysed its content and, taking into account that it does not affect either the transparency of the markets or investor protection and without delving into considerations of any other nature, has no remarks to make in this regard.”

d5) CNMV Circular on information on foreign collective investment schemes

The general appraisal of this Circular was extremely positive, although comments were raised on certain aspects that should be subject to review: (i) the form with the information to be sent through the electronic exchange system by the foreign IICs that wish to market their shares or equity shares in Spain must be included as an annex to this Circular; (ii) the obligation to maintain subsequent reports of an economic content and the subsequent annual reports that are prepared after registration with the CNMV must be for a period of five years; and (iii) it must be made clear that communication of the number of shareholders and net assets must be made by each company, if this party does not have compartments or sub-funds, or for each marketed compartment or sub-fund, if there are any.

d6) Draft bill for modification of the Stock Market Law for amendment of the rules governing transparency and takeover bids

The Advisory Committee believed that the draft bill, which deserved an overall favourable opinion, was characterised by regulating issues in a very general way, with continuous references to the regulations. This is not criticised; on the contrary, it is considered prudent given the appropriateness of having flexibility to rectify or solve issues that become apparent over time. But it inevitably detracts importance and content from this legislative initiative. The following were put forward as specific remarks: (i) the approval of the price of the delisting takeover bid by the CNMV must be maintained; (ii) there is no agreement with the system of responsibility that is introduced for periodic information and other public information; (iii) non-inclusion in the legal text of the hypothesis of a certain number of directors as a determining factor of the obligation to prepare a takeover bid is viewed positively; (iv) there is a proposal to apply the criteria of article 103 of the Stock Market Law to adopt measures against a takeover bid; (v) the non-existence of the preferential subscription rights in increases of capital in a swap takeover bid must be recognised; and (vi) certain gaps in the transitory regime need to be reviewed.

d7) Royal Decree through which articles 31, 44 b and the Seventeenth Additional Provision of Law 24/1988, dated 28 July, governing the Securities Market are implemented and through which different rules of the financial sector are amended

The Advisory Commission expressed its favourable opinion, in general terms, to the Royal Decree proposal that is the object of the report. However, it believes that it was susceptible to certain improvements of a technical nature that are detailed hereunder: (i) clarification is needed of what percentage is required in the capital of a shareholder of a secondary market in Spain or similar entity in order to apply the rules governing significant shareholdings; (ii) it would be appropriate to clarify whether everything that exceeds or falls short of any multiple of 1% of the share capital of the secondary market must be notified to the CNMV and which party is obliged to notify the CNMV of any variation of 1% and, therefore, we recommend that entities like BME, as soon as they become aware of this through their record of shareholders, notify the CNMV; (iii) clarification is likewise required on how three concurrent regimes governing the controlling shareholdings of secondary markets and similar can share the same platform; (iv) there is a question mark over the legal qualification to demand prior authorisation of the CNMV on holdings of similar foreign companies in the capital of Iberclear; (v) an objective date must be established for sending proposals from governing bodies, stock market companies and Iberclear to the CNMV; (vi) there should be a reflection on the impact that the demand for minimum shareholders' equity in order to be a participant in Iberclear would have; (vii) the Advisory Committee does not find it reasonable that when a hedge fund invests in funds managed by management companies belonging to its same group this is prohibited; and (viii) the duty of notification of transactions should be limited exclusively to those legal persons of which the administrator or director of the listed company is chief executive or director general.

d8) CNMV Circular on prospectuses of collective investment schemes

The Advisory Committee positively valued the preparation of a single consolidated text from what has been, to date, the disperse regulatory norms of the collective investment scheme prospectus. It also backed the flexibility of the methods of presentation, although some comments were made, the most relevant of which are shown below: On the one hand, the breakdown of the distribution costs in the prospectus should not be required, and on the other hand, it should be made clear that the documents with advertising objectives other than the prospectus will never replace the obligation to prepare the simplified prospectus.

d9) Draft bill of the Mortgage Market Update Act, governing regulation of reverse mortgages and the protection of dependence

The Advisory Committee made some comments on aspects that could be beneficial if they were cleared up or certain issues were modified: (i) close attention should be paid to the solution concerning the equivalence of *in rem* guarantees that encumber properties located in other member states of the European Union; (ii) removal of a series of requirements established for mortgage debentures was proposed due to the problem of harmonisation with European ones; (iii) there was a proposal to refer to the financial instruments as a resource to which the bankruptcy committee could use to make payments to debenture holders or bondholders; and (iv) a proposal to allow replacement assets to represent up to 10% in the case of debentures and up to 15% in the case of bonds was put forward.

e) Other reports

e1) Unified coding of recommendations on good governance of listed companies

The report from the Advisory Committee of the CNMV on the unified code project of good governance attempted to represent a catalogue of suggestions to implement the recommendations that the Unified Code Project contained. An initial series of general observations is made (concerning basic principles) and then a large number of the 70 recommendations contained in the draft are analysed. Among the general observations are: (i) a proposal to create a specific section of definitions; (ii) to adopt a less imperative tone that corresponds to the voluntary nature of the Code; (iii) the inclusion of justifications for the recommendations, the argument on their provenance or the sources from which the recommendation in question arose; and (iv) correct the sometimes excessive level of detail.

e2) Proposal for amendment of the regulations concerning the Advisory Committee

The Advisory Committee of the CNMV opined that now that 12 years have elapsed since its creation, it is time to reform its governing regulations. The aforementioned reform must take into account the experience accumulated by the Committee and

by the equivalent bodies that have been created in other countries and within the scope of the European Union. The characteristics of the Advisory Committee in the new Stock Market Law could therefore be the following: (i) the Advisory Committee regime could be included as part of the Internal Regulations approved by the CNMV Board, following an industry meeting; (ii) it is important to reinforce the advisory duty of the Committee in the regulatory case files. The Committee must also notify the white papers and community regulatory proposals on issues concerning the securities market and do so as a mandatory duty. The power of the CNMV to submit any other issue to the Advisory Commission must also be maintained, and the Committee must be allowed to provide blanket information on case files in which very serious violations concur or others of less importance. There must be an appraisal of whether the terms of reference with regard to the authorisation, revocation, statutory amendment and with regard to company operations should disappear, just as the terms of reference concerning the collective bond should do; (iii) the Committee should adopt a “polysynodal” structure. There would continue to be a Committee or main body that meets every month, and subgroups of experts would be created; (iv) the Advisory Committee must include representatives from credit institutions (plus a representative for each issuer and wholesale and retail marketeers), the self-governing regions where they have their secondary markets, the markets, the trading systems and the registration, clearance and settlement systems, investment services companies, insurance companies, issuers, collective investment schemes, pension funds and consumers of financial services. Other members could be appointed by the Committee at the proposal of the CNMV, in order to include market experts or to deal with new realities that may arise. With regard to replacement of Committee members, it would be better for these to be designated directly by patrons; (v) we propose the election of members to be channelled through the associations representing the industry.

VI Report by the Internal Control Body



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INTERNAL CONTROL BODY

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CONTROL REPORT PURSUANT TO LAW 44/2002,
GOVERNING FINANCIAL SYSTEM REFORM
MEASURES.- 2006



1.-Introduction

The CNMV's Directorate of Internal Control has performed an audit concerning the adaptation of the resolutions adopted by the governing bodies to the procedural regulations applicable to each case, in implementation of the Internal Control Action Plan approved by the Commission's Board at its session dated 30 January 2007, in compliance with the Second Additional Provision of Law 44/2002, dated 22 November, governing Financial System Reform Measures (Official State Gazette dated 23 November).

The performance of the work has been in accordance with the International Standards for the Professional Exercise of the Internal Board of the Institute of Internal Auditors, pursuant to the Internal Audit Standards for the CNMV approved through resolution of the Board dated 28 December 2004.

2.-Objective and scope

The purpose of this work is to check the adaptation to procedural regulations applicable in the take-up of decisions by the governing bodies of the CNMV in 2006.

The specific regulations applicable to the CNMV procedures were as follows:

- The Securities Market Law (24/1998, dated 28 July, and other regulations)
- Internal regulations of the CNMV
- Internal performance procedures of the CNMV under the terms of articles 38, 39 and 40 of the Internal Regulations

We have also taken into account the Resolutions on the delegation of terms of reference in favour of the President, the Vice-president and the Executive Committee of the CNMV, dated 21 April 2005 and 29 June 2006.

In the performance of our work, there were no limitations to the application of auditing standards and procedures.

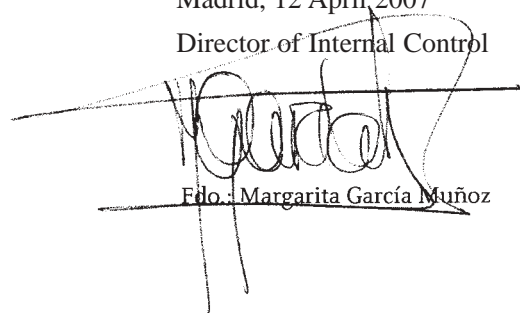
3.-Opinion

In our opinion, having carried out the audit, we can conclude that the governing bodies of the CNMV have complied with the requirements set forth in current legislation within the sphere of supervision commissioned by the Securities Market Act and other applicable regulations, both with regard to procedural aspects as well as the terms of reference applicable to each case with the following reservation:

- In one of the cases analysed, the disciplinary procedure was resolved by exceeding the deadline established in article 9.2 of Royal Decree 2119/1993, dated 3 December, governing the disciplinary proceedings applicable to participants that operate in financial markets. However, given that the Board of the CNMV extends the deadline for processing the case file to the maximum permitted by Law 30/92, governing the Legal System and Common Administrative Procedure, the maximum period for resolution has been respected, and this breach solely affects the procedural efficiency.

Madrid, 12 April 2007

Director of Internal Control



Edo.: Margarita García Muñoz

VII Financial Statements of the CNMV

1 Summary of Financial Statements 2006

1.1 Balance sheet

Euros

Account Number	Assets	2006	2005
	A) Fixed assets	32,368,916.33	30,806,696.90
	II. Intangible fixed assets	1,861,538.57	1,715,357.44
215	3. Computer applications	3,687,250.22	3,079,841.47
281	7. Depreciation	-1,825,711.65	-1,364,484.03
	III. Tangible fixed assets	30,506,141.89	29,090,103.59
220, 221	1. Land and buildings	28,645,078.77	27,927,420.57
226	3. Tools and furniture	2,554,585.79	2,103,729.90
227, 228	4. Other fixed assets	3,882,868.74	3,352,649.31
282	5. Depreciation	-4,576,391.41	-4,293,696.19
	V. Permanent financial investments	1,235.87	1,235.87
250	1. Long-term securities portfolio	935.36	935.36
265	3. Long-term guarantees and deposits	300.51	300.51
	B) Deferred expenses		
	C) Current assets	93,572,573.91	103,953,856.70
	II. Accounts receivable	11,541,187.32	9,068,251.04
460, 469	1. Sundry receivables	11,545,757.99	8,474,217.10
470	3. Public Authorities	0.00	189.85
555, 558	4. Other accounts receivable	13,785.51	609,705.14
490	5. Provisions	-18,356.18	-15,861.05
	III. Short-term financial investments	80,489,684.57	91,210,629.45
541, 546	1. Short-term securities portfolio	80,478,598.08	91,186,837.40
544, 547	2. Other short-term investments and credits	11,086.49	23,792.05
57	IV. Cash	1,370,074.81	3,523,134.20
480	V. Accruals and adjustments	171,627.21	151,842.01
	Grand total (A+B+C)	125,941,490.24	134,760,553.60

1.2 Statement of revenues and expenditure

Euros

Account Number	Debit	2006	2005
	A) Expenses	35,890,703.99	29,883,374.32
	3. Operating expenses of services and employee welfare expenses	35,431,622.07	29,289,251.08
	a) Personnel expenses:	22,299,519.62	19,827,730.36
640, 641	a.1) Wages, salaries and similar	17,875,056.87	16,033,906.70
642, 643, 644	a.2) Employee welfare expenses	4,424,462.75	3,793,823.66
681, 682	c) Fixed asset depreciation	1,067,521.35	976,096.64
	d) Variation in trade positions	45,549.75	10,978.32
675, 694, (794)	d.2) Changes in provisions for loan losses and bad debts	45,549.75	10,978.32
	e) Other management expenses	12,007,658.03	8,462,123.59
62	e.1) External services	11,962,736.85	8,433,158.13
630,632	e.2) Taxes	41,979.25	18,274.48
676	e.3) Other current expenses	2,941.93	10,690.98
	f) Financial expenses and other similar expenses	10,808.58	12,250.31
669	f.1) Through debts	10,808.58	12,250.31
668	h) Exchange loss differential	564.74	71.86
	4. Transfers and subsidies	400,497.48	398,755.08
651	b) Current subsidies	400,497.48	398,755.08
	5. Extraordinary deficit and expenses	58,584.44	195,368.16
671	a) Losses from fixed assets	20,296.34	107,713.08
678	c) Extraordinary expenses	0.00	51,214.03
679	d) Expenses and losses from other financial years	38,288.10	36,441.05
	Surplus	13,720,451.26	24,457,738.55

1.3 Cash flow statement: Source and application of funds

Euros

Funds applied	2006	2005
1. Funds applied in operations	34,344,457.83	28,457,973.64
c) Outside services	11,962,736.85	8,433,158.13
d) Taxes	41,979.25	18,274.48
e) Personnel expenses	21,841,091.15	19,508,448.45
g) Transfers and subsidies	400,497.48	398,755.08
h) Financial expenses	11,373.32	12,322.17
i) Other current losses and extraordinary expenses	41,230.03	76,037.01
j) Provision for current assets	45,549.75	10,978.32
4. Fixed asset acquisitions and additions	2,882,316.27	1,047,525.92
b) Intangible Fixed Assets	607,408.75	672,010.73
c) Tangible Fixed Assets	2,274,907.52	375,515.19
5. Direct decrease in equity	22,930,647.77	13,942,268.16
b) Assignments	227,324.62	0.00
c) Delivered for general use	22,703,323.15	13,942,268.16
7. Provisions for contingencies and expenses	379,022.29	323,117.73
Total funds applied	60,536,444.16	43,770,885.45
Funds obtained in excess of funds applied (increasing working capital)	0.00	10,583,536.43

1.4 Cash flow statement: Change in working capital

Amounts in millions euros

Change in working capital (summary)	2006		2005	
	Increases	Decreases	Increases	Decreases
2. Accounts receivable	3,069,045.76	189.85	464,198.68	0.00
a) Trade accounts receivable	3,069,045.76	0.00	464,008.83	0.00
b) Other accounts receivable	0.00	189.85	189.85	0.00
3. Accounts payable	135,155.63	538,357.67	0.00	685,767.69
a) Trade accounts payable	135,155.63	0.00	0.00	550,522.27
b) Other accounts payable	0.00	538,357.67	0.00	135,245.42
4. Short-term financial investments	0.00	10,720,944.88	7,458,064.67	0.00
6. Other non-bank accounts	0.00	504,444.56	544,962.83	0.00
7. Cash on hand and at banks	0.00	2,153,059.39	2,765,773.31	1,006.75
a) Cash	0.00	4,261.86	0.00	1,006.75
c) Other banks and credit institutions	0.00	2,148,797.53	2,765,773.31	0.00
8. Accruals and adjustments	19,785.20	0.00	37,311.38	0.00
Total	3,223,986.59	13,916,996.35	11,270,310.87	686,774.44
Change in operating capital	0.00	10,693,009.76	10,583,536.43	0.00

Annexes

Statistical annexes I

International economic indicators

I.1

	GDP ¹			Internal demand ²			Unemployment rate ³		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
OECD	3.2	2.6	3.2	3.1	3.0	3.0	6.9	6.6	6.0
USA	3.9	3.2	3.3	4.6	3.9	3.6	5.5	5.1	4.6
Japan	2.7	1.9	2.2	1.9	1.6	1.3	4.7	4.4	4.1
Euro area	1.7	1.5	2.8	1.6	1.7	2.7	8.8	8.6	7.8
Germany	0.8	1.1	2.9	-0.5	0.5	2.3	10.6	11.7	10.8
Spain	3.2	3.5	3.9	4.9	5.2	4.9	11.0	9.2	8.5
France	2.0	1.2	2.0	2.8	2.2	2.3	10.0	9.9	9.1
Italy	0.9	0.1	2.0	0.7	0.4	2.0	8.0	7.7	7.0
United Kingdom	3.3	1.9	2.7	3.9	1.9	3.0	2.7	2.7	3.0
Latin America & Caribbean	5.9	4.5	5.3	—	—	—	10.3	9.1	8.7

	Inflation ⁴			Budgetary balance ⁵			Current account balance ⁵		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
OECD	2.4	2.6	2.6	-3.4	-2.7	-2.0	-1.2	-1.7	-2.0
USA	2.7	3.4	3.2	-4.6	-3.7	-2.3	-5.7	-6.4	-6.6
Japan	0.0	-0.3	0.2	-6.3	-5.3	-4.6	3.7	3.7	3.8
Euro area	2.1	2.2	2.2	-2.8	-2.4	-2.1	0.8	0.0	-0.3
Germany	1.7	2.0	1.7	-3.7	-3.2	-2.3	3.7	4.2	4.0
Spain	3.0	3.4	3.5	-0.2	1.1	1.4	-5.3	-7.4	-8.8
France	2.2	1.7	1.7	-3.7	-2.9	-2.7	-0.4	-1.6	-1.7
Italy	2.2	2.0	2.1	-3.5	-4.3	-4.8	-0.9	-1.6	-2.2
United Kingdom	1.3	2.0	2.3	-3.3	-3.4	-3.0	-1.6	-2.2	-2.4
Latin America & Caribbean	7.4	6.1	4.8	-1.9	-1.2	-0.3	1.0	1.5	1.8

Sources: Ministry of Economy and Finance. OCDE Economic Outlook No. 80 and ECLAC.

1. Annual rate of change, in real terms (%).

2. Contribution to annual growth in percentage points, except for the OCDE which is expressed in terms of annual growth (%).

3. Annual average (% of active population).

4. Consumer price index. Average annual rate of change.

5. Surplus (+) or deficit (-) as a percentage of the GDP.

Composition of households financial assets¹ (%)

1.2

Amounts in percentages except balance in millions of euros

	Balance	Cash and deposits	Fixed income securities	Shares	Mutual funds and investment companies	Insurance underwriting reserves	Other
1998	933,807	35.8	2.5	26.7	18.8	11.1	5.0
1999	1,027,513	36.5	2.4	27.4	16.7	12.0	5.1
2000	1,049,623	39.7	2.5	23.9	13.7	13.8	6.4
2001	1,106,439	40.3	2.3	23.6	12.8	14.5	6.5
2002	1,085,848	43.5	2.6	17.9	12.3	16.1	7.5
2003	1,243,380	40.1	3.0	21.4	12.5	15.3	7.5
2004	1,391,406	38.9	2.5	23.1	12.9	14.9	7.7
2005	1,556,632	38.3	2.7	24.2	13.1	14.7	7.1
2006 ²	1,691,487	38.3	3.0	25.3	12.6	14.0	6.8

Promemoria: breakdown of change in portfolio value between December 2005 and September 2006

Variation (%)	8.7	8.7	18.5	13.9	4.9	4.0	3.4
Variation (millions of euros)	134,854	52,050	7,842	52,142	10,050	9,050	3,721
- net acquisition of assets	67,607	51,778	6,227	-7,663	5,584	7,463	4,218
- approximate price effect ³	67,247	272	1,615	59,805	4,466	1,586	-497

Source: Bank of Spain, "Financial Accounts of the Spanish Economy", and CNMV (original data).

1. Includes private non-profit tuitions.

2. Figures for the first three quarters of 2006.

3. The approximation of price effect is carried out using data from the "financial statements of the Spanish economy". See chapter 6 for details on this effect on the collective investment schemes with CNMV data.

Composition of non-residents financial assets

1.3

Amounts in percentages except balance in millions of euros

	Balance	Cash and deposits	Fixed income securities	Shares	Mutual funds and investment companies	Insurance underwriting reserves	Other
1998	540,647	156,662	95,566	55,821	180,092	3,817	48,690
1999	675,385	191,176	125,537	77,731	222,042	4,008	54,891
2000	828,973	235,814	167,051	103,081	256,533	3,354	63,141
2001	925,058	257,382	191,874	133,680	270,267	3,092	68,762
2002	997,312	273,825	229,458	153,927	257,076	6,726	76,300
2003	1,149,344	317,693	261,901	183,535	293,217	7,242	85,757
2004	1,348,220	326,595	373,628	200,050	343,268	7,895	96,783
2005	1,619,541	384,184	524,584	228,249	371,634	4,446	106,445
2006 ¹	1,830,500	372,267	672,865	253,021	413,607	5,003	113,736

Source: Bank of Spain. «Financial Accounts of the Spanish Economy», and CNMV (original data).

1. Figures for the first three quarters of 2006.

Balance of public debt by holder

1.4

Annexes
Statistical annexes I



Source: Directorate-General of the Treasury and Finance Policy.

Stock market trading, by participant type

1.5

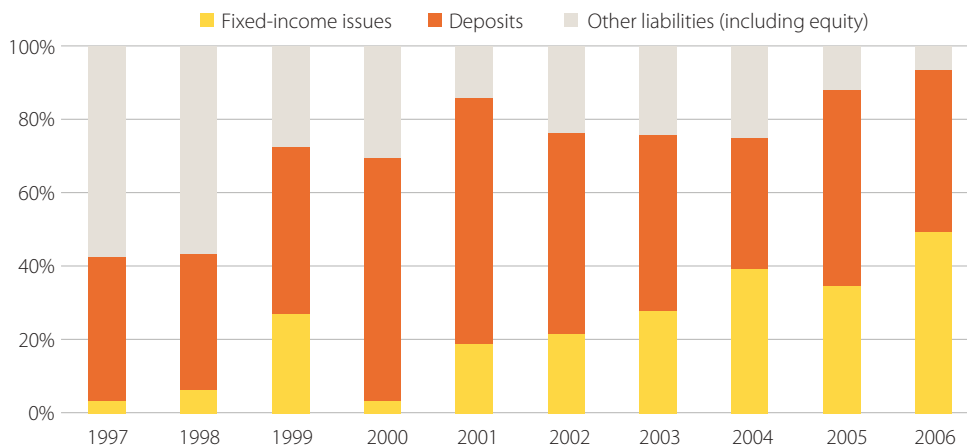


Source: Bolsas y Mercados Españoles

1. Data from January to October 2006.

Net liabilities contracted by financial institutions¹

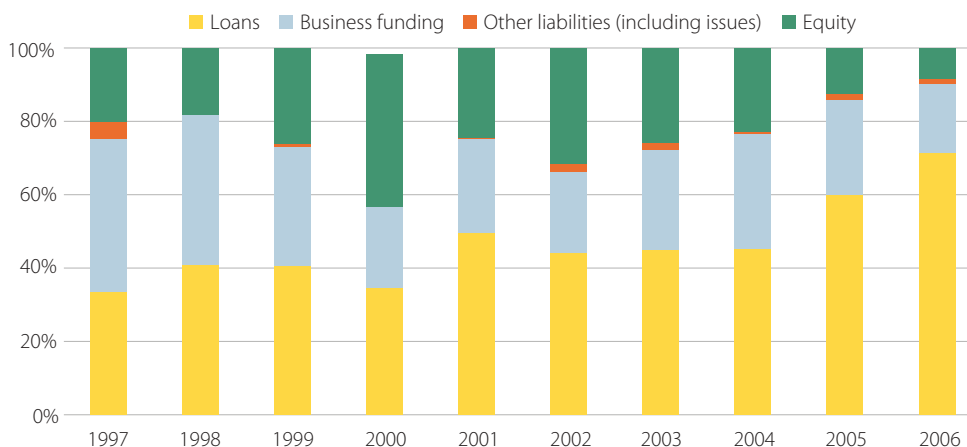
1.6



Source: Bank of Spain, «Financial Accounts of the Spanish Economy» and CNMV (original data).
1. Data to December, except 2006 to September.

Net liabilities contracted by non-financial companies¹

1.7



Source: Bank of Spain, «Financial Accounts of the Spanish Economy» and CNMV (original data).
1. Data to December, except 2006 to September.

Pre-tax earnings of companies admitted to the continuous market¹

1.8

Millions euros

CNMV sector	2005	% Chg. 05/04 ²	2006	% Chg. 06/05 ²
Oil	7,072.8	34.7	6,758.1	-4.4
Energy and water	9,627.8	60.5	10,441.6	8.6
Mining and base metals	4,788.4	26.4	5,203.1	7.6
Cement and construction materials	326.5	5.0	447.1	37.0
Chemicals	19.4	-162.9	-24.7	-227.5
Textiles and paper	575.3	21.9	1,323.0	13.8
Metal-mechanical	3,026.5	35.6	714.1	26.5
Food	1,361.1	9.2	1,203.1	-11.1
Construction	3,291.7	24.7	5,932.6	86.8
Real estate	1,949.7	44.8	5,605.9	97.4
Transport and communications	10,774.5	29.4	7,988.1	3.2
Other non-financial	1,947.3	43.4	2,041.7	-0.4
Banks	17,910.6	49.7	20,541.2	18.7
Insurance	780.8	21.9	1,041.7	33.4
Portfolio companies	91.1	-8.6	122.7	34.6
Total	63,543.4	39.2	69,339.4	17.7

Source: CNMV.

1. According to International financial reporting standards for consolidated group companies and domestic standards for companies that do not present consolidated data. The data for 2006 do not include EADS.
2. Percentage of change calculated using periodic financial information filed by the companies. The information filed with regard to the previous financial year is used for each rate of change. So, for example, to calculate the rate of change between 2005 and 2004, only the information filed in the first quarter of 2006 is used with regard to the 2005 and 2004 financial years.

Returns on assets and earnings of companies admitted onto the continuous market¹

1.9

%

CNMV sector	ROA ² 2005	ROA ² 2006	ROE ³ 2005	ROE ³ 2006
Oil	15.1	13.5	21.7	17.9
Energy and water	7.8	8.9	17.9	15.9
Mining and base metals	12.1	11.6	23.2	16.4
Cement and construction materials	11.6	11.6	12.7	13.7
Chemicals	2.2	3.5	3.2	6.1
Textiles and paper	5.4	12.3	15.6	17.3
Metal-mechanical	3.9	7.6	11.9	23.7
Food	8.1	6.8	19.9	18.1
Construction	5.3	4.5	17.0	29.4
Real estate	8.1	5.6	20.1	25.4
Transport and communications	11.4	9.2	28.6	27.6
Other non-financial	10.0	8.0	20.5	22.7
Banks	1.5	1.6	17.5	19.6
Insurance	4.7	5.9	2.3	2.7
Portfolio companies	5.1	5.3	6.4	8.6
Total	3.6	3.5	18.1	19.1

Source: CNMV.

1. According to International financial reporting standards for consolidated group companies and domestic standards for companies that do not present consolidated data. The data for 2006 do not include EADS.
2. Results before interest and taxes on the average of total assets for the year.
3. Year results after taxes on the average of net earnings for the year.

Statistical annexes II

Equity issues and public offerings from companies admitted for listings on official markets¹

II.1

Amounts in millions euros

Issuer	Cash amount	Operation	CNMV registration date
Tecnocom, Telecomunicaciones y Energía	0.0	Increase without issue prospectus	10/01/06
Azkoyen	0.0	Increase without issue prospectus	12/01/06
Sniace	33.6	Increase with issue prospectus	24/01/06
Service Point Solutions	1.6	Increase without issue prospectus	26/01/06
Tele Pizza	56.8	Increase without issue prospectus	02/02/06
Bankinter	0.5	Increase without issue prospectus	09/02/06
EADS ²	7.6	Increase without issue prospectus	14/02/06
Urbas, Proyectos Urbanisticos	29.5	Increase with issue prospectus	16/02/06
Urbas, Proyectos Urbanisticos	0.8	Increase without issue prospectus	23/02/06
Nicolas Correa	13.8	Increase without issue prospectus	09/03/06
Renta Corporación Real Estate	240.1	Combined. Ordinary Shares	16/03/06
Avanzit	31.1	Increase without issue prospectus	23/03/06
Service Point Solutions	0.0	Increase without issue prospectus	23/03/06
La Seda de Barcelona	44.8	Increase without issue prospectus	06/04/06
Sogecable	106.1	Increase without issue prospectus	06/04/06
Avanzit	49.7	Increase with issue prospectus	11/04/06
Iberia	7.7	Increase without issue prospectus	11/04/06
Parquesol Inmobiliaria y Proyectos	284.8	Combined. Ordinary Shares	19/04/06
Grifols	343.2	Rights offering Ordinary Shares	26/04/06
Bankinter	0.5	Increase without issue prospectus	04/05/06
Agrupacion Actividades e Inversiones Inmobiliarias	94.0	Increase with issue prospectus	09/05/06
Astroc Mediterraneo	193.9	Public offering. Ordinary Shares	12/05/06
Sogecable	0.6	Increase without issue prospectus	18/05/06
Dogi International Fabrics	66.3	Increase without issue prospectus	23/05/06
Ercros	109.9	Increase without issue prospectus	25/05/06
General de Alquiler de Maquinaria	113.4	Combined. Ordinary Shares	25/05/06
Zeltia	0.0	Increase without issue prospectus	01/06/06
Técnicas Reunidas	361.8	Public offering. Ordinary Shares	02/06/06
Jazztel	6.6	Increase without issue prospectus	15/06/06
Jazztel	1.0	Increase without issue prospectus	15/06/06
Jazztel	119.8	Increase with issue prospectus	15/06/06
NH Hoteles	57.4	Increase without issue prospectus	20/06/06
Abertis Infraestructuras	0.0	Increase without issue prospectus	22/06/06
Fadesa Inmobiliaria	29.3	Increase without issue prospectus	22/06/06
Bolsas y Mercados Españoles	779.2	Public offering. Ordinary Shares	29/06And /06

Equity issues and public offerings from companies admitted for listings on official markets¹ (continuation) II.1

Amounts in millions euros

Issuer	Cash amount	Operation	CNMV registration date
Lanetro Zed	---	Combined. Ordinary Shares	29/06/06
Grupo Inmocaral	747.6	Increase with issue prospectus	05/07/06
Riofisa	243.7	Public offering. Ordinary Shares	05/07/06
Sacyr Vallehermoso	0.0	Increase without issue prospectus	06/07/06
Service Point Solutions	2.6	Increase without issue prospectus	06/07/06
Service Point Solutions	1.0	Increase without issue prospectus	18/07/06
La Seda de Barcelona	418.7	Increase with issue prospectus	19/07/06
Faes Farma	0.0	Increase without issue prospectus	20/07/06
Banco de Valencia	0.0	Increase without issue prospectus	25/07/06
Papeles y Cartones de Europa	0.8	Increase without issue prospectus	27/07/06
Grupo Inmocaral	1,503.3	Increase without issue prospectus	01/08/06
Grupo Inmocaral	436.3	Increase without issue prospectus	01/08/06
Mittal Steel Company ²	17,897.3	Increase without issue prospectus	01/08/06
Zardoya Otis	0.0	Increase without issue prospectus	01/08/06
Jazztel	0.1	Increase without issue prospectus	08/08/06
Tavex Algodonera	147.8	Increase without issue prospectus	10/08/06
Unión Europea de Inversiones	5.7	Increase without issue prospectus	10/08/06
Mittal Steel Company ²	372.7	Increase without issue prospectus	05/09/06
Mecalux	0.0	Increase without issue prospectus	07/09/06
Urbas, Proyectos Urbanísticos	22.0	Increase with issue prospectus	19/09/06
Cía. Levantina de Edificación y Obras Públicas	0.0	Increase without issue prospectus	21/09/06
Natraceutical	61.6	Increase with issue prospectus	05/10/06
La Seda de Barcelona	0.2	Increase without issue prospectus	19/10/06
Vocento	333.3	Public offering. Ordinary Shares	20/10/06
Tecnocom, Telecomunicaciones y Energía	10.1	Increase without issue prospectus	24/10/06
Iberia	0.3	Increase without issue prospectus	27/10/06
Duro Felguera	0.0	Increase without issue prospectus	03/11/06
Vidrala	0.0	Increase without issue prospectus	08/11/06
Vueling Airlines	210.3	Combined. Ordinary Shares	16/11/06
Adolfo Domínguez	0.0	Increase without issue prospectus	23/11/06
Unión Europea de Inversiones	315.7	Increase with issue prospectus	23/11/06
Unipapel	0.0	Increase without issue prospectus	23/11/06
Banco Bilbao Vizcaya Argentaria	3,000.0	Increase without issue prospectus	28/11/06
Amci Promocio i Habitatge	9.7	Increase with issue prospectus	29/11/06
Cintra	0.0	Increase without issue prospectus	30/11/06
Inmobiliaria del Sur	0.0	Increase without issue prospectus	30/11/06
Inypsa Informes y Proyectos	0.0	Increase without issue prospectus	30/11/06
Sociedad General de Aguas de Barcelona	1.5	Increase without issue prospectus	30/11/06
Montebalito	32.8	Increase without issue prospectus	01/12/06
Libertas 7	0.0	Increase without issue prospectus	07/12/06

Equity issues and public offerings from companies admitted for listings on official markets¹ (continuation) II.1

Amounts in millions euros

Issuer	Cash amount	Operation	CNMV registration date
Valenciana de Negocios	0.0	Increase without issue prospectus	07/12/06
Sniace	4.4	Increase without issue prospectus	12/12/06
Prim	0.0	Increase without issue prospectus	14/12/06
Azkoyen	0.0	Increase without issue prospectus	21/12/06
Sogecable	0.8	Increase without issue prospectus	28/12/06

Source: CNMV

1. This does not include those equity issues registered at the CNMV from issues not admitted on to official equities markets. It does include those issuers, which although not listed at the time, had the declared intention of doing so.
2. For the full amount of the issuer's capital increase

Company	Market ²	Reason. Procedure	Date
Transportes Azkar	SIBE	Upon settlement of the tender offer made by the company itself under article 7.4 of Royal Decree 1197/1991.	02-02-06
Cortefiel	SIBE	Upon settlement of the tender offer made by the company itself under article 7.4 of Royal Decree 1197/1991.	27-03-06
Telefonica Moviles	SIBE	Merger. Technical	31-07-06
Carroggio Ediciones	Open outcry	At the issuer's request. Delisted by the Catalan regional government.	11-01-06
Grand Tibidabo	Open outcry	Breach of information requirements. Delisted by the Catalan regional government.	14-03-06
Marflet	Open outcry	At the issuer's request. Intermediate procedure.	31-03-06
Alcinver	Open outcry	At the issuer's request. Delisted by the Basque regional government.	06-04-06
Popularinsa	Open outcry	Merger. Technical	10-08-06
Cementos Lemona	Open outcry	At the issuer's request.	20-09-06
Forum Inmobiliario Cisneros	Open outcry	Merger. Technical	06-12-06
Procisa	Open outcry	At the issuer's request.	06-12-06
Saplaya	Open outcry	Merger. Technical	06-12-06
Tena Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	13-01-06
Analisis de Valores	Open outcry, CII	Removal from Administrative Register of CII. Technical	19-01-06
Ineder Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	19-01-06
Links Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	19-01-06
Mali Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	19-01-06
Inversiones Garibas (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	31-01-06
Pomodoro Inversiones (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	31-01-06
Dehasa (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	09-02-06
Dehasa (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	13-02-06
Jusa Patrimonio 2001 (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	15-02-06
Cartera Mundial	Open outcry, CII	Removal from the commercial register. Technical	23-02-06
Siluric	Open outcry, CII	Removal from Administrative Register of CII. Technical	02-03-06
Valores Corona (in receivership)	Open outcry, CII	Delisted by the Basque regional government.	15-03-06
Lebasi de Inversiones (in receivership)	Open outcry, CII	Delisted by the Catalan regional government.	22-03-06
Faperna Inversiones (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	30-03-06
St. Moritz Inversiones (in receivership)	Open outcry, CII	Delisted by the Basque regional government.	31-03-06
Walfis Finance	Open outcry, CII	Delisted by the Catalan regional government.	18-04-06
Intermoney 1	Open outcry, CII	Removal from the commercial register. Technical	20-04-06
Canigo Inversiones	Open outcry, CII	Removal from the commercial register. Technical	21-04-06
Alcumar Financiera	Open outcry, CII	Removal from Administrative Register of CII. Technical	22-05-06
Pentacore Inversiones	Open outcry, CII	Removal from the commercial register. Technical	07-06-06
Calais de Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	08-06-06
Unifond (in receivership)	Open outcry, CII	Removal from the commercial register. Technical	27-06-06
Almunia Patrimonio	Open outcry, CII	Removal from the commercial register. Technical	28-06-06
Eurozitro	Open outcry, CII	Removal from Administrative Register of CII. Technical	03-10-06
Albiorma Inversiones	Open outcry, CII	Removal from the commercial register. Technical	06-10-06
Tigna Ventura	Open outcry, CII	Removal from the commercial register. Technical	10-10-06

Company	Market ²	Reason. Procedure	Date
Flow Inversiones	Open outcry, CII	Delisted by the Catalan regional government.	11-10-06
Good Lion Investment	Open outcry, CII	Merger. Technical	11-10-06
Foncyg	Open outcry, CII	Removal from Administrative Register of CII. Technical	06-11-06
Anoa Finanzas	Open outcry, CII	At the issuer's request.	09-11-06
Barra Alta	Open outcry, CII	Merger. Technical	21-11-06
Timberline Investment	Open outcry, CII	Merger. Technical	21-11-06
Valinsa	Open outcry, CII	Delisted by the Catalan regional government.	21-11-06
Villamarta Finance	Open outcry, CII	Delisted by the Catalan regional government.	23-11-06
A.A. Inver Plusquam	Open outcry, CII	Delisted by the Catalan regional government.	04-12-06
Rentivasa de Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	08-12-06
Balinvest/Ac 5,00	Open outcry, CII	Removal from Administrative Register of CII. Technical	22-12-06
Gesinbesa Valores	Open outcry, CII	Delisted by the Catalan regional government.	22-12-06
Byada	Second market	At the issuer's request.	06-10-06

Source: CNMV.

1. Does not include the SICAVs that were excluded from stock exchanges on moving to the MAB.

2. If the company is a collective investment institution (CII), this is stated in this column.

Performance by the Madrid and Barcelona Stock Exchange sector indices

II.3

Return over the period (%)

	2003	2004	2005	2006	2006			
					1 Qtr	2 Qtr	3 Qtr	4 Qtr
Madrid Stock Exchange								
Oil & energy	25.0	20.1	28.0	33.3	7.7	1.1	18.9	3.0
Commodities, industry & construction	26.9	28.7	43.4	61.9	25.4	-2.5	11.3	19.0
Consumer goods	-7.9	34.7	24.2	31.9	9.6	0.9	8.4	10.1
Consumer services	40.0	34.3	21.2	8.6	4.1	-10.6	8.8	7.3
Financial & real estate services	30.5	8.9	22.7	34.9	14.1	-5.0	13.3	9.9
Technology & telecommunications	40.6	18.4	-6.6	28.4	2.9	0.0	5.0	18.8
Banking	31.0	7.6	19.2	27.3	12.6	-5.6	11.2	7.7
Real estate and others	18.4	23.7	72.9	111.2	26.2	2.8	28.5	26.6
Madrid Stock Exchange General	27.4	18.7	20.6	34.5	11.3	-2.7	12.5	10.4
Barcelona Stock Exchange								
Electricity	29.4	17.1	29.9	48.3	15.1	1.1	26.8	0.5
Banks	31.1	5.7	19.4	26.0	10.9	-5.5	10.6	8.7
Chemicals	23.1	23.4	29.1	7.2	-3.0	-6.4	5.7	11.5
Cement, construction & real estate	20.9	29.9	56.9	85.6	32.9	-2.3	20.4	18.7
Metallurgy	13.4	28.5	17.7	77.9	29.1	7.1	6.1	21.3
Food, agriculture & forestry	30.4	27.8	35.6	32.4	10.1	1.2	3.3	15.1
Textiles & paper	24.8	33.2	32.5	42.0	17.2	-0.1	9.9	10.2
Commerce & finance	-16.5	33.6	26.7	34.4	31.4	-16.7	15.3	6.5
Sundry services	39.1	23.0	-2.2	20.6	3.1	-5.3	3.0	20.0
BCN Global 100	32.0	17.6	12.7	29.3	9.2	-4.2	9.5	12.9

Source: Bolsas y Mercados Españoles.

Concentration of capitalisation by sector¹

II.4

Number

Sector	2005				2006			
	25%	50%	75%	100%	25%	50%	75%	100%
Oil	1	1	2	2	1	1	2	2
Energy and water	1	2	4	11	1	2	3	11
Mining and base metals	1	1	2	10	1	2	2	11
Cement and construction materials	1	2	3	6	1	2	2	5
Chemicals	1	1	1	4	1	1	1	4
Textiles and paper	1	1	1	20	1	1	1	20
Metal-mechanical	1	1	1	14	1	1	2	16
Food	1	1	4	18	1	2	4	17
Construction	1	3	4	7	1	3	4	7
Real estate	2	3	5	30	1	4	7	30
Transport and communications	1	1	2	9	1	1	1	7
Other non-financial	2	4	7	22	2	5	9	21
Banks	1	2	3	15	1	2	3	15
Insurance	1	1	2	2	1	1	2	2
Portfolio companies	1	1	2	15	1	1	2	15
SICAV	26	232	920	3,112	13	72	238	747
Finance comapnies	1	1	1	1	1	1	1	1

Source: CNMV

1. Includes only the capitalisation of companies that were traded in the year. Excluding Latibex and MAB.

Percentage of capitalisation by sector and largest companies with respect to the overall market¹

11.5

Sector	% sector / market ²	Companies with the largest capitalisation in the sector ³	% company / market ⁴
Oil	5.8	Repsol YPF	3.8
		CEPSA	1.9
Energy and water	12.7	Endesa	4.6
		Iberdrola	3.6
		Gas Natural Sdg	1.6
Mining and base metals	8.0	Mittal Steel Company	3.6
		Arcelor	3.3
		Acerinox	0.7
Cement and construction materials	0.7	Cementos Portland	0.3
		Cementos Molins	0.2
		Uralita	0.1
Chemicals	3.5	Bayer Aktiengesellschaft	3.1
		Faes Farma	0.2
		Zeltia	0.1
Textiles and paper	4.0	Inditex	3.1
		Grifols	0.3
		Grupo Empresarial Ence	0.2
Metal-mechanical	4.3	EADS	2.6
		Zardoya Otis	0.7
		Abengoa	0.3
Food	2.5	Altadis	1.2
		Ebro Puleva	0.4
		Damm	0.2
Construction	7.2	ACS	1.8
		Sacyr Vallehermoso	1.5
		Grupo Ferrovial	1.2
Real estate	6.0	Metrovacesa	1.6
		Grupo Inmocaral	0.8
		Astroc Mediterraneo	0.6
Transport and communications	12.5	Telefonica	9.5
		Abertis Infraestructuras	1.6
		Cintra	0.8
Other non-financial	4.9	Telecinco	0.6
		Gamesa Corp.	0.6
		Antena 3 Televisión	0.5
Banks	25.4	Banco Santander Central Hispano	10.6
		Banco Bilbao Vizcaya Argentaria	7.8
		Banco Popular Español	2.0
Insurance	0.9	Corporación Mapfre	0.5
		Grupo Catalana Occidente	0.4
Portfolio companies	0.4	NH Hoteles	0.2

Percentage of capitalisation by sector and largest companies with respect to the overall market¹
(continuation)

11.5

Sector	% sector / market ²	Companies with the largest capitalisation in the sector ³	% company / market ⁴
		Unión Europea de Inversiones	0.1
		Dinamia Capital Privado	0.0
SICAV ⁵	1.1	Cartera Mobiliaria - Carmosa -	0.1
		Soixa	0.0
		Torrenova Inversiones	0.0
Finance companies	0.0	Amci Promocio i Habitatge	0.0

Source: CNMV

1. Capitalisation at year-end.

2. Capitalisation of companies in a sector as a percentage of total market capitalisation.

3. The three largest companies in terms of capitalisation in each sector.

4. Company capitalisation as a percentage of total market capitalisation.

5. Includes open-end securities investment companies (SICAV) and closed-end securities investment companies (SIM).

Capitalisation and trading of Ibx 35 companies

11.6

Millions euros

Company	Capitalisation ¹			Trading		
	2005	2006	% total ²	2005	2006	% total ²
Banco Santander Central Hispano	69,735.4	88,435.8	10.6	159,517.1	196,755.6	17.1
Telefonica	62,547.6	79,328.6	9.5	160,344.6	189,951.5	16.5
Banco Bilbao Vizcaya Argentaria	51,134.0	64,787.9	7.8	109,819.1	158,951.7	13.8
Endesa	23,525.5	37,935.1	4.6	49,031.7	87,407.9	7.6
Repsol YPF	30,118.7	31,986.6	3.8	65,548.0	86,286.2	7.5
Iberdrola	20,816.8	29,859.3	3.6	36,166.8	57,222.7	5.0
Arcelor ³	13,467.2	27,452.7	3.3	4,414.0	5,293.3	0.5
Inditex	17,172.8	25,438.1	3.1	12,574.9	13,822.1	1.2
Banco Popular Español	12,519.0	16,687.9	2.0	21,077.9	23,175.7	2.0
ACS	9,601.7	15,071.2	1.8	13,581.3	11,353.1	1.0
Abertis Infraestructuras	12,310.7	13,680.2	1.6	5,499.3	5,892.0	0.5
Gas Natural	10,594.4	13,428.8	1.6	5,537.0	8,019.1	0.7
Metrovacesa	5,221.7	13,079.7	1.6	5,161.7	12,524.4	1.1
Sacyr Vallehermoso	5,654.1	12,808.6	1.5	3,636.6	6,487.2	0.6
Banesto ⁴	8,769.4	11,637.0	1.4	1,763.6	3,470.3	0.3
Union Fenosa	9,576.1	11,425.5	1.4	13,478.5	12,088.7	1.1
Banco de Sabadell	6,781.0	10,376.6	1.2	4,820.0	7,967.8	0.7
Grupo Ferrovial	8,205.5	10,372.6	1.2	7,065.1	12,108.4	1.1
Altadis	10,316.6	10,155.2	1.2	25,284.9	31,018.3	2.7
FCC	6,254.2	10,079.8	1.2	3,492.5	7,552.6	0.7
Acciona	6,002.3	8,966.9	1.1	4,421.3	7,871.0	0.7
Cintra Conc. Infr. Y Transp	4,798.2	6,549.0	0.8	4,914.8	5,454.3	0.5
Acerinox	3,189.3	5,981.5	0.7	6,548.3	8,689.9	0.8
Gestevisión Telecinco	5,258.4	5,322.5	0.6	7,863.5	8,335.1	0.7
Gamesa Corporación Tecnológica	3,007.2	5,072.8	0.6	6,427.5	8,400.4	0.7
Bankinter	3,652.0	4,683.7	0.6	2,667.6	3,862.4	0.3
Red Eléctrica de España	3,538.7	4,394.9	0.5	4,885.9	7,298.9	0.6
Enagás	3,772.0	4,206.5	0.5	5,710.9	7,742.4	0.7
Corporación Mapfre ⁵	3,332.7	4,085.2	0.5	2,887.8	3,988.7	0.3
Fadesa Inmobiliaria ⁶	3,124.2	3,982.9	0.5	2,900.1	5,503.7	0.5
Antena 3 Televisión	4,475.6	3,766.3	0.5	5,126.9	7,386.0	0.6
Sogecable	4,522.5	3,703.6	0.4	7,830.4	6,289.2	0.5
Telefónica Publicidad e Información ⁷	2,588.5	2,996.5	0.4	2,438.2	5,534.3	0.5
Prisa	3,150.9	2,890.5	0.3	2,169.0	2,856.2	0.2
Indra Sistemas	2,413.6	2,720.6	0.3	4,453.6	4,490.1	0.4
Iberia Líneas Aéreas de España	2,159.8	2,616.7	0.3	5,500.1	5,253.2	0.5
NH Hoteles ⁸	1,583.8	1,858.0	0.2	2,622.5	3,193.5	0.3
Telefónica Móviles ⁹	38,412.0	—	—	5,036.9	17,038.1	1.5

Source: CNMV

1. Capitalisation on last day of year.
2. With respect to total market.
3. Removed from the index on 06/07/2006.
4. Added to the index on 01/08/2006.
5. Added to the index on 25/07/2006.
6. Added to the index on 03/07/2006.
7. Removed from the index on 25/07/2006.
8. Removed from the index 03/07/2006 and added once again on 17/08/2006.
9. Removed from the index on 25/07/2006.

Market data of Ibx 35 companies

II.7

%

	Yield		Volatility		P/E ratio ¹		Dividend yield ²	
	2005	2006	2005	2006	2005	2006	2005	2006
Banco Santander Central Hispano	22.1	26.8	14.2	17.6	13.3	13.3	3.3	3.1
Telefonica	-4.7	26.8	12.4	15.3	14.4	14.0	1.6	3.4
Banco Bilbao Vizcaya Argentaria	15.6	21.0	13.0	17.8	13.7	12.7	3.2	3.2
Endesa	28.5	61.3	16.0	23.1	12.8	14.9	3.5	7.2
Repsol YPF	28.8	6.2	17.8	22.3	9.1	9.8	2.0	2.5
Iberdrola	23.5	43.4	12.3	24.2	15.4	18.8	3.5	2.9
Arcelor ³	23.5	105.7	22.8	38.2	4.3	8.4	4.8	2.8
Inditex	27.0	48.1	16.9	20.7	21.7	26.2	1.1	1.3
Banco Popular Español	6.2	33.3	12.4	15.2	13.9	15.8	3.5	2.8
ACS	62.0	57.0	19.0	19.0	16.3	18.3	1.7	1.9
Abertis Infraestructuras	37.8	11.1	16.4	16.8	24.7	25.9	2.2	2.1
Gas Natural	4.0	26.8	13.7	21.4	17.0	18.6	3.2	3.0
Metrovacesa	72.2	150.5	22.6	43.7	19.5	34.8	2.3	0.9
Sacyr Vallehermoso	74.8	126.6	22.1	37.6	16.1	31.5	2.1	1.0
Banesto ⁴	23.5	36.4	13.1	17.2	14.3	11.8	0.0	0.0
Union Fenosa	62.4	19.3	18.1	16.2	16.5	18.4	2.1	2.0
Banco de Sabadell	28.8	53.0	15.3	15.2	15.2	18.7	2.5	2.2
Grupo Ferrovial	48.8	26.4	22.9	29.0	21.9	24.8	1.5	1.3
Altadis	13.7	3.5	14.5	19.1	17.2	19.1	2.4	2.5
FCC	35.2	61.2	18.6	26.4	15.4	18.9	3.0	2.1
Acciona	45.1	49.4	22.2	29.3	20.1	23.1	1.8	1.6
Cintra Conc. Infr. Y Transp	20.8	36.6	22.5	22.5	n.a.	n.a.	0.6	0.6
Acerinox	4.1	87.6	18.3	21.0	12.2	14.6	2.1	1.3
Gestevisión Telecinco	40.4	1.2	23.4	22.5	18.1	17.3	3.3	4.7
Gamesa Corporación Tecnológica	20.0	68.7	23.1	25.7	14.7	22.7	2.4	1.4
Bankinter	19.6	27.2	15.5	22.9	17.8	20.5	2.5	2.1
Red Eléctrica de España	58.5	24.2	19.1	17.7	22.2	22.3	2.5	2.4
Enagás	29.5	11.5	19.6	20.9	20.3	18.9	2.3	2.3
Corporación Mapfre ⁵	28.6	22.6	18.7	20.1	n.a.	n.a.	2.1	1.9
Fadesa Inmobiliaria ⁶	95.4	26.3	29.2	32.8	17.0	16.8	1.0	1.0
Antena 3 Televisión	51.5	-9.6	27.1	26.2	21.0	17.0	1.9	4.5
Sogecable	4.6	-20.3	20.9	28.1	n.a.	n.a.	0.0	0.0
Telefónica Publicidad e Información ⁷	5.1	15.8	16.0	14.2	21.1	21.8	4.2	4.1
Prisa	-7.8	-8.3	18.2	20.4	n.a.	n.a.	0.8	1.1
Indra Sistemas	31.3	12.7	17.5	21.7	22.9	23.9	3.2	2.1
Iberia Líneas Aéreas de España	-10.2	20.5	23.8	23.8	17.6	27.6	2.2	0.7
NH Hoteles ⁸	35.8	13.3	22.1	26.3	32.3	27.3	1.1	1.0
Telefónica Móviles ⁹	-4.2	20.2	18.3	20.6	19.7	n.a.	2.2	1.8

Source: Datastream

1. Expected price/earnings ratio at year-end, according to IBES data.

2. Ratio of dividends distributed to price.

3. Removed from the index on 06/07/2006.

4. Added to the index on 01/08/2006.

5. Added to the index on 25/07/2006.

6. Added to the index on 03/07/2006.

7. Removed from the index on 25/07/2006.

8. Removed from the index 03/07/2006 and added once again on 17/08/2006.

9. Removed from the index 25/07/2006. Data available are for the day prior to removal.

Amounts in millions euros and %

Company	Offeror	Purpose	% of capital covered by bid	Actual cash amount	% attained ¹
Cementos Lemona	Cementos Pórtland Valderrivas	Acquire stake	69.28 (min.=19.28%)	234	65.34
Sogecable	Promotora de Informaciones	Acquire stake	Maximum 20.00 (min.=16.00%)	988	20.00 pro rata 27.58%
Union Fenosa	ACS	Acquire stake	Max. 10.00	1.005	10.00 pro rata 37.28%
Cortefiel	MEP Retail España	Delisting	12,61	57	3.93
Endesa	Gas Natural SDG	Acquire control	100.00 (min.=75.00%)	Bid withdrawn	Bid withdrawn
Hullas del Coto Cortés.	Comile	Acquire control	100,00	30	77.63
Tele Pizza	Foodco Pastries Spain y Medimosal	Acquire control	77.92 (min.=49.00%)	735	63.47
Tele Pizza	Food Service Projet	Acquire control	100.00 (min.=49.00%)	Bid withdrawn	Bid withdrawn
Metrovacesa	Cresa Patrimonial	Increase stake	Max. 20.00	1,218	15.32
Arcelor ²	Mittal Steel Company	Acquire control	100.00 (min.=53.65%)	1,881	92.93
Telefónica Publicidad e Información	Midorina	Acquire control	100.00 (min.=59.90%)	2,892	94.25
Tele Pizza	Vidisco	Acquire control	100.00 (min.=49.00%)	Bid withdrawn	Bid withdrawn
Inmobiliaria Colonial	Grupo Inmocaral	Acquire control	100.00 (min.=39.37%)	3,513	93.41
Europistas, Concesionaria Española	Isolux Wat ingeniería y Bendía	Acquire control	100.00 (min.=27%)	Bid withdrawn	Bid withdrawn
Metrovacesa	Alteco Gestión y Promoción de Marcas y Mag-Import	Increase stake	Max. 26.00	1,954	24.00
Europistas, Concesionaria Española	Sacyr Vallehermoso Participaciones	Increase stake	67.61 (min.=27%)	724	58.82
Inmobiliaria Urbis	Construcciones Reyal	Acquire control	100.00 (min.=50.27%)	3,198	96.41
Endesa	E.ON Zwölfte Verwaltungs	Acquire control	100.00 (min.=50.27%)	Open	Open
Sotogrande	NH Hoteles	Increase stake	20,94	101	18.66
Parquesol Inmobiliaria y Proyectos	Udramed	Acquire control	100.00 (min.=50.00%)	466	50.79
Obrascón Huarte Lain	Cartera Villar Mir	Increase stake	49,28	0	0.00
Total amount.				18,996.6	

Source: CNMV

1. Percentage with regard to the share capital. In the event of pro rata, the coefficient is included.

2. The cash amount paid only includes the Spanish market

Companies listed on Latibex, by sectors

II.9

Amount in the millions euros, except where otherwise indicated

	No. of companies		Capitalisation			Trading		
	2005	2006	2005	2006	% chg. 06/05	2005	2006	% chg. 06/05
Oil	2	2	65,121.5	82,601.6	26.8	65.8	89.3	35.7
Energy and water	4	5	19,759.0	27,295.4	38.1	54.5	61.6	13.1
Mining and base metals	5	5	45,473.2	60,419.6	32.9	169.9	202.0	18.9
Chemicals	1	1	1,705.3	1,283.8	-24.7	18.4	16.0	-13.3
Textiles and paper	2	2	2,417.9	3,173.2	31.2	7.1	10.4	47.0
Metal-mechanical	1	1	2,868.0	2,838.6	-1.0	31.8	30.3	-4.8
Food	2	2	3,079.5	3,826.3	24.2	20.4	66.4	225.6
Real estate	2	2	1,876.9	2,353.5	25.4	5.7	15.9	179.7
Transport and communications	3	3	56,257.6	56,905.2	1.2	83.3	110.2	32.3
Other non-financial	2	2	1,832.6	3,374.9	84.1	7.8	6.7	-14.3
Banks	6	6	18,342.9	21,008.3	14.5	69.9	71.8	2.7
Finance companies	2	3	3,649.6	6,561.6	79.8	22.0	42.6	93.8
Total	32	34	222,384.1	271,641.8	22.1	556.7	723.3	29.9

Source: CNMV

Gross issues by Public Administrations

II.10

Amount in millions euros

	Amount						% chg. 06/05
	2001	2002	2003	2004	2005	2006	
State	66,906	67,363	73,089	78,616	67,806	57,962	-14.5
short term	27,070	32,235	36,208	36,964	29,512	25,891	-12.3
long term	39,836	35,127	36,881	41,652	38,293	32,071	-16.2
Autonomous Regions.	4,787	8,321	7,975	7,131	10,170	9,454	-7.0
short term	2,455	3,323	3,785	4,056	4,132	4,517	9.3
long term	2,332	4,998	4,190	3,076	6,037	4,937	-18.2
Local governments	259	369	102	310	200	590	194.7
short term	—	—	—	—	—	—	—
long term	259	369	102	310	200	590	194.7
Total public administrations	71,951	76,053	81,166	86,057	78,176	68,006	-13.0

Source: Bank of Spain and CNMV.

Net issues by Public Administrations

II.11

Amount in millions euros

	Amount						% chg. 06/05
	2001	2002	2003	2004	2005	2006	
State	4,334	7,586	328	6,650	3,890	-4,789	—
short term	-9,079	247	2,935	-1,653	-3,819	-1,993	47.8
long term	13,413	7,339	-2,608	8,304	7,709	-2,796	—
Autonomous Regions.	690	3,000	1,822	1,551	2,797	1,827	-34.7
short term	266	67	-154	230	276	-141	—
long term	424	2,933	1,976	1,321	2,521	1,968	-21.9
Local governments	-88	170	-38	-18	-5	228	—
short term	—	—	—	—	—	—	—
long term	-88	170	-38	-18	-5	228	—
Total public administrations	4,936	10,756	2,112	8,183	6,682	-2,734	—

Source: Bank of Spain and CNMV.

Public debt trading among account holders. Outright trades¹, repos and sell/buybacks and buy/sellbacks

II.12

Nominal amounts in millions euros

	2001	2002	2003	2004	2005	2006	% chg. 06/05
Treasury bills:	491,981	223,432	508,880	472,518	484,161	480,711	-0.7
Outright	21,790	14,770	62,075	85,222	82,515	64,164	-22.2
Spot	21,631	14,770	61,662	84,833	82,389	63,694	-22.7
Forward	159	0	413	389	126	470	273.8
Repos	22,191	9,206	7,030	1,990	411	0	---
Sell/buybacks and buy/sellbacks	448,000	199,455	439,775	385,306	401,234	416,547	3.8
Bonds and debentures:	5,175,151	6,239,664	7,217,128	7,308,084	7,260,528	7,062,437	-2.7
Outright	792,774	997,195	901,582	562,627	491,550	447,211	-9.0
Spot	775,417	982,835	882,482	552,418	481,854	444,083	-7.8
Forward	17,357	14,360	19,099	10,209	9,696	3,128	-67.7
Repos	62,686	88,078	58,550	94,254	69,327	96	-99.9
Sell/buybacks and buy/sellbacks	4,319,691	5,154,391	6,256,997	6,651,203	6,699,650	6,615,129	-1.3
Total	5,667,131	6,463,096	7,726,009	7,780,602	7,744,688	7,543,148	-2.6

Source: Bank of Spain and CNMV.

1. Outright trades consist of spot and forward trades.

Treasury bill trading among account holders. Breakdown by trade type

II.13

Nominal amounts in millions euros

	2001	2002	2003	2004	2005	2006	% chg. 06/05
Outright¹	21,790	14,770	62,075	85,222	82,515	64,164	-22.2
Senaf	—	0	27,093	36,350	13,119	5,111	-61.0
MTS-España	—	191	13,103	13,580	16,959	12,464	-26.5
EuroMTS	—	0	0	180	170	260	52.9
Brokertec	—	—	—	—	—	—	—
Bilateral trading	21,790	14,579	21,879	35,112	52,267	46,329	-11.4
Repos²	470,191	208,661	446,806	387,297	401,646	416,547	3.7
Senaf	—	1,866	30,527	18,211	25,543	7,579	-70.3
MTS-España	—	—	243	0	0	53	—
EuroMTS	—	—	—	—	0	0	—
Brokertec	—	—	—	—	—	—	—
Bilateral trading	470,191	206,795	416,036	369,086	376,103	408,915	8.7
Total	491,981	223,432	508,880	472,518	484,161	480,711	-0.7

Source: Bank of Spain, Directorate-General of the Treasury and Finance Policy and CNMV.

1. Outright trades consist of spot and forward trades.
2. Repos also include sell/buybacks and buy/sellbacks.

Government bond and debenture trading among account holders. Breakdown by trade type

II.14

Nominal amounts in millions euros

	2001	2002	2003	2004	2005	2006	% chg. 06/05
Outright¹	792,774	997,195	901,582	562,627	491,550	447,211	-9.0
Senaf	319,000	440,628	253,653	69,758	57,554	89,118	54.8
MTS-España	—	105,175	183,208	85,265	83,830	72,581	-13.4
EuroMTS	116,162	105,031	111,705	47,503	24,462	11,170	-54.3
Brokertec	7,344	6,403	2,137	337	312	0	-100.0
Bilateral trading	350,268	339,958	350,879	359,764	325,392	274,343	-15.7
Repos²	4,382,377	5,242,469	6,315,551	6,745,457	6,768,978	6,615,226	-2.3
Senaf	—	26,217	436,455	277,358	127,478	76,788	-39.8
MTS-España	—	—	7,501	388	0	1,949	—
EuroMTS	—	—	—	—	—	0	—
Brokertec	—	—	—	—	—	—	—
Bilateral trading	4,382,377	5,216,252	5,871,595	6,467,711	6,641,500	6,536,489	-1.6
Total	5,175,151	6,239,664	7,217,133	7,308,084	7,260,528	7,062,437	-2.7

Source: Bank of Spain, Directorate-General of the Treasury and Finance Policy and CNMV.

1. Outright trades consist of spot and forward trades.
2. Repos also include sell/buybacks and buy/sellbacks.

Trading in government debt between members and third parties: Outright trades¹, repos and sell/buybacks and buy/sellbacks

II.15

Nominal amounts in millions euros

	Amounts						% chg. 06/05
	2001	2002	2003	2004	2005	2006	
Treasury bills:	2,231,422	2,012,442	2,098,975	1,800,846	1,746,209	1,214,840	-30.4
Outright	36,715	25,326	28,120	30,328	33,963	29,167	-14.1
Spot	36,485	25,325	28,089	30,119	33,698	29,137	-13.5
Forward	230	0	31	209	265	30	-88.6
Repos	2,164,743	1,985,247	2,069,898	1,768,729	1,709,341	1,185,339	-30.7
Sell/buybacks and buy/sellbacks	29,964	1,868	957	1,789	2,905	334	-88.5
Bonds and debentures:	8,342,190	10,329,895	11,465,342	13,252,235	12,729,047	13,851,199	8.8
Outright	1,215,831	1,292,148	1,318,652	1,571,265	2,040,064	2,683,862	31.6
Spot	1,208,224	1,288,012	1,274,648	1,469,329	1,740,267	2,365,603	35.9
Forward	7,606	4,136	44,004	101,936	299,797	318,259	6.2
Repos	6,503,208	8,103,296	9,042,194	10,613,122	9,631,174	9,850,322	2.3
Sell/buybacks and buy/sellbacks	623,151	934,451	1,104,496	1,067,848	1,057,808	1,317,014	24.5
Total	2,231,422	2,012,442	2,098,975	1,800,846	1,746,209	1,214,840	-30.4

Source: Bank of Spain and CNMV.

1. Outright trades consist of spot and forward trades.

Number of issuers and issues registered with the CNMV: breakdown by instrument

II.16

	Number of issuers ¹		Number of issues	
	2005	2006	2005	2006
Long term	118	121	183	252
Non-convertible bonds and debentures	49	46	93	115
of which: subordinated debt	21	27	22	35
Convertible bonds and debentures	4	1	4	1
Mortgage covered bonds	9	11	21	37
Territorial covered bonds	2	5	3	6
Securitisation bonds	53	61	54	82
- asset-backed (BTA)	46	58	47	79
- mortgage-backed (BTH)	7	3	7	3
Preference shares	6	9	7	11
Other issues	1	0	1	0
Short term	68	68	81	83
Commercial papers	68	68	81	83
Of which, asset-backed	3	3	3	3
Total	155	159	264	335

Source: CNMV

1. Issuer figures are not mutually exclusive as a given issuer may have issued several types of instrument.

Amounts in millions euros

Company	Nominal amount issued		
	Total	Short term ²	Long term
Caja de Ahorros y Pensiones de Barcelona	23,250	8,000	15,250
Caja de Ahorros y Monte de Piedad de Madrid.	18,950	4,000	14,950
AYT Cédulas Cajas Global Fondo de Titulización de Activos	14,495	0	14,495
Banco de Sabadell	14,220	6,000	8,220
BBVA Banco de Financiación	10,000	10,000	0
Banco Bilbao Vizcaya Argentaria	9,530	0	9,530
Banco Popular Español	9,500	7,500	2,000
Caja de Ahorros de Valencia Castellón y Alicante (Bancaja)	7,550	4,000	3,550
Banco Santander Central Hispano	7,500	0	7,500
Caja de Ahorros de Galicia	7,500	5,000	2,500
Santander Consumer Finance	6,700	5,000	1,700
Caixa D'Estalvis de Catalunya	6,435	2,700	3,735
Bankinter	6,375	5,000	1,375
Caja de Ahorros del Mediterraneo	6,100	5,000	1,100
Programa Cédulas TDA Fondo de Titulización de Activos	5,650	0	5,650
BPE Financiaciones	5,200	0	5,200
Bankinter Sociedad de Financiación	5,000	5,000	0
Banco Pastor	4,000	3,000	1,000

Source: CNMV

1. Issuers that issued over 4 billion euros in 2006.
2. Commercial papers: Issue or shelf registration

Main issuers¹ of fixed income in 2006. Breakdown by instrument

II.18

Amounts in millions euros

Asset type ²	Issuer	Amount
Non convertible bonds and debentures:	Caja de Ahorros y Monte de Piedad de Madrid	8,950
	Banco de Sabadell	6,050
	BPE Financiaciones	5,200
	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	3,550
	Caja de Ahorros de Galicia	2,200
	Caja de Ahorros y Pensiones de Barcelona	2,000
	Caixa D'Estalvis de Catalunya	1,835
	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	1,500
	Ente Publico RTVE	1,500
Mortgage covered bonds	Caja de Ahorros y Pensiones de Barcelona	11,750
	Banco Bilbao Vizcaya Argentaria	7,700
	Banco Santander Central Hispano	7,500
	Caja de Ahorros y Monte de Piedad de Madrid	6,000
	Banco Español de Crédito	3,000
	Banco de Sabadell	2,170
	Banco Popular Español	2,000
	Caixa D'Estalvis de Catalunya	1,900
Territorial covered bonds	Banco Bilbao Vizcaya Argentaria	1,500
	Caja de Ahorros y Pensiones de Barcelona	1,500
Commercial papers ³	BBVA Banco de Financiación	10,000
	Caja de Ahorros y Pensiones de Barcelona	8,000
	Banco Popular Español	7,500
	Banco de Sabadell	6,000
	Bankinter Sociedad de Financiación	5,000
	Bankinter	5,000
	Caja de Ahorros de Galicia	5,000
	Caja de Ahorros del Mediterráneo	5,000
	Santander Consumer Finance	5,000
	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	4,000
	Caja de Ahorros y Monte de Piedad de Madrid	4,000
	Banco de Andalucía	3,000
	Banco Pastor	3,000
	Caixa D'Estalvis de Catalunya	2,700
	Caja de Ahorros de Salamanca y Soria	2,250
	Caja de Ahorros y Monte de Piedad de Navarra	2,000
	Endesa Capital	2,000
	Telefónica	2,000
	BBK Empréstitos	1,500
	Caixa D'Estalvis del Penedes	1,500
Caja de Ahorros de Castilla-La Mancha	1,500	
Montes de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga y Antequera	1,500	

Source: CNMV

1. Issuers that issued over 1.5 billion euros of the corresponding financial instrument in 2006.
2. Neither the convertible bonds and debentures nor the preferential holdings are shown as there was no issuer with an issue higher than 1.5 billion euro.
3. Amount of the issue of shelf registration.

Issuers of commercial paper: largest¹ outstanding balances at 31 December 2006

II.19

Amounts in millions euros

Issuer	Amount	% of total	% accumulated
BBVA Banco de Financiación	6,826	9.0	9.0
Banco Popular Español	6,763	8.9	17.9
Santander Consumer Finance	5,917	7.8	25.7
Banco de Sabadell	5,306	7.0	32.7
Banesto Banco de Emisiones	5,000	6.6	39.3
Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	3,462	4.6	43.8
Caja de Ahorros de Galicia	2,854	3.8	47.6
Caixa d'Estalvis de Catalunya	2,760	3.6	51.2
Bankinter	2,745	3.6	54.8
Caja de Ahorros y Pensiones de Barcelona	2,590	3.4	58.3

Source: CNMV

1. Issuers with an outstanding balance greater than 2 billion euros.

Main issuers¹ of securitisation bonds in 2006

II.20

Amounts in millions euros

Issuer	Amount	Assets securitised
AAYT Cédulas Cajas Global FTA	14,495	Mortgage covered bonds
Programa cédulas Tda, FTA	5,650	Mortgage covered bonds
Cédulas Grupo Banco Popular 2, FTA	3,000	Mortgage covered bonds
FTA Santander Empresas 2	2,954	Loans to companies (Micro companies, SMEs and large corporations, and to self-employed persons to finance their economic activities and the acquisition of goods required for their economic activity).
AYT Genova Hipotecario VIII, FTH	2,100	Mortgage securitisation
Im Grupo Banco Popular FTPYME I FTA	2,030	SME
Bancaja 9, FTA	2,023	Mortgage Transfer Certificates
Madrid Rmbs I, FTA	2,000	Mortgage Transfer Certificates
FTA Santander Hipotecario 2	1,973	Mortgage Transfer Certificates
FTA Santander Financiación 1	1,914	Personal loans
BBVA-5 FTPYME, FTA	1,900	SME
Im Grupo Banco Popular Empresas 1, FTA	1,832	SME
FTA Uci 16	1,820	Mortgage participations and mortgage assignment certificates
Madrid Rmbs II FTA	1,800	Mortgage Transfer Certificates
TdA CAM 7, FTA	1,750	Mortgage participations and mortgage assignment certificates
Bankinter 13 FTA	1,570	Mortgage Transfer Certificates
FTPYME TdA CAM 4, FTA	1,529	SME
Hipocat 10, F.T.A.	1,526	Mortgage Transfer Certificates
BBVA Consumo 1, FTA	1,500	Credit rights stemming from loans to physical Spaniards or residents (to finance the purchase of goods and services (consumer spending)).
BBVA Consumo 2, FTA	1,500	Credit rights stemming from loans to physical individuals to finance the purchase of goods, services and vehicles.
Foncaixa Hipotecario 9, FTA	1,500	Mortgage Transfer Certificates

Source: CNMV

1. Issuers that issued over 1.5 billion euros in 2006, in the corresponding financial instrument.
2. Neither the convertible bonds nor debentures or the preferential holdings appear as there was no issuer with an issue in excess of 1.5 billion euros.
3. Amount of issue or shelf registration.

Securitisation issues by type of assets securitised

II.21

Nominal amounts in millions euros

	2001	2002	2003	2004	2005	2006
Securitisation bonds issued						
Through FTH (a)	5,113	6,776	5,030	4,890	6,850	4,300
Through FTA	6,685	12,027	31,710	45,635	62,194	87,308
Mortgage loans (b)	1,356	4,247	11,828	13,967	22,870	34,663
Mortgage covered bonds (c)	4,548	3,500	10,650	18,685	24,280	25,670
Loans to developers (d)	0	320	0	475	730	0
Mortgage subtotal (a+b+c+d)	11,017	14,843	27,508	38,017	54,731	64,633
Territorial covered bonds	0	0	1,400	0	665	0
Treasury bonds	0	0	0	0	1,180	1,450
Loans to SMEs ¹	550	3,110	6,253	8,964	6,371	12,795
Public Administration credits	0	0	0	1,850	0	0
Consumer loans	231	0	1,280	235	0	5,527
Loans to companies ²	0	0	0	0	3,100	5,536
Car loans	0	850	0	1,000	2,598	1,360
Others ³	0	0	300	458	400	306
Total securitisation bonds	11,797	18,803	36,740	50,525	69,044	91,608
Securitisation commercial paper issued						
Total securitisation commercial paper⁴	6,133	6,114	3,870	3,724	2,767	1,993
Total bonds plus commercial paper	17,931	24,917	40,610	54,248	71,811	93,600

Source: CNMV

1. Includes the FTPYME, FTGENCAT funds and other asset-backed funds for SME loans. 100% of the portfolio of all of these are SME loans.
2. Part of the securitised loans may be to SMEs.
3. In 2003 includes a trade receivables fund; in 2004 and 2005 loan funds for farming and agriculture activities. In 2004 and 2006 AYT Fondo Eólico, Asset Securitisation Fund (infrastructure). In 2006 AYT Deuda subordinada I; FTA (special subordinated bonds)
4. Gross issue of the securitised assets funds with issue of securitised commercial paper

Proprietary trading on AIAF

II.22

Nominal amounts in millions euros

	Amount						% chg. 06/05
	2001	2002	2003	2004	2005	2006	
Commercial paper	5,853	5,637	2,946	9,440	28,474	41,916	47.21
Bonds and debentures	24,509	32,498	48,875	122,989	249,375	155,960	-37.46
Mortgage covered bonds	143	204	184	5,950	5,651	7,071	25.13
Territorial covered bonds	0	0	4	4	111	23.3	-79.01
Matador bonds	1,727	3,275	2,992	3,519	2,363	2,915	23.37
Total	32,232	41,614.00	55,001	141,902	285,975	207,885	-27.31

Source: AIAF and CNMV

Statistical annexes III

Category	No. funds		No. Unit Holders		Assets		Breakdown of asset change		Pro-memoria Net subscription distribution FIM (%)				
	2006	Chg.	2006	Chg.	Amount	%	Amount	Net returns					
										Asset change		Net returns	
										2006	2006	2006	2006
Short-term fixed-income	374	134	2,537,718	1,854,767	105,731	93.3	51,272	49,005	2,270	97.8			
Long-term fixed-income	157	-1	312,531	8,653	8,809	-26.6	-3,250	-3,267	17	-6.5			
Mixed fixed-income	145	-9	307,984	-2,860	9,331	-2.5	1,339	910	428	1.8			
Mixed equity	148	-2	263,070	-20,647	7,093	3.3	-145	-955	811	-1.9			
Spanish equity	118	2	317,386	-47,915	10,416	6.9	664	-2,219	2,883	-4.4			
Foreign fixed-income	73	1	107,873	1,626	1,865	-23.8	-544	-533	-10	-1.1			
Foreign mixed fixed-income	67	4	216,843	34,699	5,983	18.4	807	629	178	1.3			
Foreign mixed equity	74	2	93,943	-31,097	3,056	-2.6	274	101	173	0.2			
Euro equity (RVE)	114	8	298,551	36,855	7,842	24.2	1,516	382	1,134	0.8			
Guaranteed fixed income	220	9	497,540	42,303	14,485	7.8	1,131	1,019	112	2.0			
Guaranteed equity	561	47	1,783,867	-65,759	44,797	-2.3	-1,026	-3,021	1,995	-6.0			
Global funds	420	73	937,845	330,706	33,934	43.0	8,458	7,302	1,156	14.6			
Foreign equity Europe	68	0	282,123	29,074	7,667	32.1	1,902	899	1,002	1.8			
Foreign equity Japan	28	2	84,889	-22,853	1,078	-32.3	-521	-395	-126	-0.8			
Foreign equity USA	42	0	122,457	55,877	1,422	15.6	198	155	43	0.3			
Foreign equity emerging countries	58	9	117,955	37,577	1,717	24.6	290	78	212	0.2			
Other foreign equity (RVIO)	157	-6	352,451	-77,564	5,073	10.1	485	15	470	0.0			
Total FIM	2,824	273	8,635,026	2,163,442	270,301	30.3	62,851	50,104	12,750	100.0			
FIAMM	3	-151	2,757	-1,975,823	106	-99.8	-54,645	-54,629	-17				
Total securities funds	2,827	122	8,637,783	187,919	270,407	3.1	8,206	-4,524	12,734				
Total real estate funds	9	2	150,304	31,447	8,596	32.8	2,119	1,673	446				

Source: CNMV.

Fund portfolio: Share in outstanding balance of Spanish securities

III.2

%

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Listed equities¹	21.9	33.9	2.8	2.6	2.9	4.8	5.2	4.9	4.1
Private fixed-income²	97.9	74.4	16.9	14.4	10.6	9.9	11.1	10.2	6.8
Short term	0.0	0.0	21.4	28.6	21.2	16.0	18.2	17.2	13.6
Long term	187.4	158.1	14.8	7.8	5.2	6.4	7.1	6.4	6.1
Public fixed-income	16.0	15.0	15.5	9.5	7.9	7.0	5.4	4.8	4.3
Short-term ³	42.4	27.7	23.7	14.2	18.9	16.7	12.0	12.5	9.2
Long term	0.7	2.0	13.9	8.8	6.3	5.5	4.5	3.8	3.7

Source: CNMV and Bank of Spain.

1. The figures are at realisation value. The outstanding balance data relate to the capitalisation of Spanish securities on the continuous market, stock exchanges and MAB.
2. In the case of fixed income, the amounts are nominal.
3. Does not include temporary purchase of assets.

Mutual fund expenses

III.3

Amounts in millions euros

	2005		2006		% chg. 06/05
	Amounts	% of daily average assets	Amounts	% of daily average assets	
Management fees	2,2673.8	1.07	2,891.6	1.03	8.1
Depository fees	247.1	0.10	263.9	0.09	6.8
Other operating expenses	60.5	0.02	64.4	0.02	6.4
Total expenses	2,981.4	1.19	3,219.9	1.15	8.0

Source: CNMV.

Asset distribution of mutual funds

III.4

Amount in millions euros, at market price

	2005	2006	% chg. 06/05
Liquidity	8,208	10,463	0.86
Portfolio investment	255,274	260,003	96.2
Spanish portfolio	123,684	127,355	47.1
Shares	11,602	13,807	0.84
Investment funds	17,256	17,323	0.03
Public money market assets	4,149	2,888	-0.48
Other public fixed-income	10,089	9,892	-0.08
Private money market assets	26,851	28,483	0.62
Other private fixed-income	18,836	23,105	1.63
Spanish warrants and options	483	603	0.05
Repos	34,418	31,229	-1.22
Unlisted securities	0	25	0.01
Foreign securities	131,590	132,647	0.40
Euros	118,872	118,664	-0.08
Rest	12,718	13,983	0.48
Net balance (receivables-payables)	-1,280	-59	0.47
Assets	262,201	270,407	3.13

Source: CNMV.

Returns trends and net subscriptions for mutual funds

III.5

% return and net subscriptions in millions euros

	2001		2002		2003		2004		2005		2006	
	Return.	Net subsc.	Return.	Net subsc.	Return.	Net subsc.	Return.	Net subsc.	Return.	Net subsc.	Return.	Net subsc.
Equities	3.84	5,763	2.72	4,117	1.89	12,011	1.78	6,842	1.63	5,607	2.6	49,005
Long-term fixed-income	4.02	-435	4.34	-727	2.58	-383	3.4	889	2.14	-461	0.47	-3,267
Mixed fixed-income	-0.5	-6,974	-3.84	-1,912	5.14	-323	3.95	15	4.78	1,657	4.87	910
Mixed fixed-income	-6.61	-2,070	-15.92	-337	11.34	-877	6.87	-852	11.62	-475	13.06	-955
Spanish equities	-8.8	-304	-26.91	105	29.02	511	19.51	1,130	20.61	276	33.25	-2,219
International fixed-income	2.89	-135	-0.64	-219	1.66	101	1.82	192	3.67	177	-0.11	-533
International mixed fixed-	-1.33	-1,501	-2.42	-246	2.39	-1,597	2.98	-456	5.4	689	3.1	629
International mixed equities	-8.61	-212	-17.96	-28	7.55	-576	4.29	-257	12.42	-70	4.72	101
Euro equities	-19.03	-949	-33.45	-187	16.91	472	9.23	11	22.35	344	19.16	382
International equities	-20.83	-1,602	—	-110	—	—	—	—	—	—	—	—
Guaranteed fixed-income	4.42	914	4.46	-2,200	2.39	-2,262	2.5	1,853	1.65	-354	0.83	1,019
Guaranteed equities	0.24	-2,092	0.37	-1,945	2.66	12,873	3.92	1,222	4.02	4,694	4.66	-3,021
Global funds	-10.44	200	-12.42	326	5.79	4,367	2.31	8,070	6.16	3,928	4.1	7,302
European equities	—	—	-33.78	-143	13.36	167	8.61	345	22.23	1,174	17.35	899
Foreign equities Japan	—	—	-25.41	-9	11.84	-1	5.94	173	40.9	681	-5.61	-395
Foreign equities USA	—	—	-34.25	124	10.03	314	0.37	-130	12.14	138	4.24	155
Spanish emerging equities	—	—	-24.53	15	26.48	-18	22.86	137	52.75	368	22.16	78
Spanish other equities	—	—	-35.16	-363	11.77	-252	4.7	-21	21.46	-51	12.13	15
Total FIM	-2.91	-9,396	-5.62	-3,740	5.16	24,528	4.15	19,164	6.13	18,319	5.56	50,104
FIAMM	3.55	9,340	2.42	8,350	1.5	3,843	1.18	-739	1.17	-3,878	2.06	-54,629
Other securities funds	-1.56	-55	-3.31	4,610	4.02	28,371	3.36	18,424	5.02	14,441	5.85	-4,524
Other real estate funds	7.49	207	7.87	459	6.89	559	6.7	1,304	5.35	1,808	5.98	1,673
Pro memoria: amount marketed by Spanish entities and resident foreign entities												
Foreign IICs								6,766		11,770		6,435

Source: CNMV.

FI: Fixed-income, E: Equities.

IIC management companies (SGIICs): registrations and removals in 2006

III.6

Annexes
Statistical annexes III

IIC management companies	Controlling group
Additions	
M&B Capital Advisers Gestión, S.G.I.I.C., S.A.	M&B Capital Advisers
Optimal Alternative Investments, SGIIC, S.A.	Banco Santander Central Hispano
Algebra Partners, SGIIC, S.A.	Independent
Proxima Alfa Investments, SGIIC, S.A.	Banco Bilbao Vizcaya Argentaria
Removals	
Sogecapital, S.G.I.I.C., S.A.,	Société Générale
Hermes Gestión, S.G.I.I.C., S.A.	Independent

Source: CNMV.

Changes in control at SGIIC. 2006

III.7

Entity	Acquirer
Takeovers by Spanish financial institutions:	
GESDINCO GESTION, SGIIC, SA	Renta 4
Takeovers by foreign financial institutions:	
NIBC PETERCAM GESTION, SGIIC, SA	Vontobel

Source: CNMV.

Foreign investment service firms using the single passport: Home country¹

III.8

Number of investment services firms	2005	2006
Free provision of services	849	951
Germany	16	22
Austria	27	26
Belgium	9	8
Cyprus	9	9
Denmark	7	7
Slovenia	1	1
Finland	5	5
France	41	42
Greece	7	8
The Netherlands	43	50
Ireland	26	26
Italy	5	5
Luxembourg	10	9
Malta	1	1
Norway	9	12
Portugal	6	7
United Kingdom	619	704
Sweden	8	9
Branches	18	22
France	2	2
The Netherlands	1	2
Portugal	1	0
United Kingdom	14	18
Total	883	973

Source: CNMV.

1. Country stated in the notifications from investment services firms from EU member states and authorisations of investment services firms from non-EU states.

Entity	Controlling group
Broker-dealers and brokers	
Registrations	
Avance Advisors, Agencia de valores, S.A.	Independent
Q-Renta, Agencia de valores, S.A.	Independent
Affinity 2002, Agencia de valores, S.A.	Independent
Alpha Finanzas, Agencia de valores, S.A.	Independent
Triple A Gestiones, Sociedad de valores, S.A.	Independent
Consultor Servicios Financieros, Sociedad de valores, S.A.	Consulnor
Agentes de Bolsa Asociados, Sociedad de valores, S.A.	Independent
Removals	
Invercaixa Valores, Sociedad de valores, S.A.	La Caixa
Espirito Santo Investment, Sociedad de valores, S.A.	Banco Espirito Santo
ING Financial Markets, Agencia de valores, S.A.	ENG
Consultor Servicios Financieros, Agencia de valores, S.A.	Consulnor
Agentes de Bolsa Asociados, Agencia de valores, S.A.	Independent
Portfolio management companies	
Removals	
Los Andes Capital, Sociedad gestora de carteras, S.A.	Independent
Q-Renta, Sociedad gestora de carteras, S.A.	Independent
EU investment companies	
Registrations	
Goldman Sachs International, sucursal en España	Goldman Sachs
Saphire Finance LLP.	Saphire Finance LLP.
Wallwood Consultants Limited, sucursal en España	Wallwood Consultants Limited
Westlb Mellon Asset Management (Reino Unido) Limited, sucursal en España	WestLB
Abn Amro Asset Management (Holanda) Bv, sucursal en España	ABN
Legg Mason Investments (Europa) Limited, sucursal en España	Legg Mason
Removals	
Lisbon Brokers, Sociedade Corretora, S.A., sucursal en España	Lisbon
Frank Russell Company Limited, sucursal en España	Frank Russell

Source: CNMV.

Changes in control at broker-dealers and brokers and portfolio management companies. 2006

III.10

Entity	Acquirer
Control acquired by Spanish financial entities:	
Padinco Patrimonios, SGC, S.A.	Renta 4
Control acquired by foreign financial entities:	
Skandia Multigestión, Agencia de valores, S.A.	Old Mutual PLC

Source: CNMV.

Spanish investment service firms using the single passport. Host country¹

III.11

Number of investment services firms	2005	2006
Free provision of services:	139	135
Germany	19	17
Austria	5	5
Belgium	10	10
Denmark	5	5
Finland	5	5
France	12	11
Greece	5	5
The Netherlands	10	10
Ireland	8	8
Iceland	3	3
Italy	11	12
Liechtenstein	1	1
Luxembourg	9	9
Norway	3	3
Portugal	14	16
United Kingdom	14	10
Sweden	5	5
Branches:	2	2
Portugal	1	1
United Kingdom	1	1
Pro memoria: Total investment firms with cross-border activities²		
Free provision of services	36	32
Branches	2	2

Source: CNMV.

1. Country stated in the notifications of free provision of services and in authorisations to open branches.
2. Number of Spanish investment firms providing services in other states, disregarding the number of states as a given firm may provide services in more than one state.

Foreign credit institutions using the single passport to provide services in Spain. Home country

III.12

Annexes
Statistical annexes III

Number of credit institutions	2005	2006
Free provision of services:	292	322
Germany	33	37
Austria	18	19
Belgium	6	6
Cyprus	2	2
Denmark	6	7
Finland	2	5
France	55	60
The Netherlands	26	27
Hungary	1	1
Ireland	24	24
Iceland	1	1
Italy	5	5
Liechtenstein	2	2
Luxembourg	46	49
Malta	1	1
Norway	2	2
Portugal	9	11
United Kingdom	50	60
Sweden	3	3
Branches:	40	45
Germany	5	6
Belgium	2	2
Denmark	1	1
France	11	13
The Netherlands	4	5
Ireland	0	1
Italy	2	2
Luxembourg	2	2
Portugal	6	6
United Kingdom	7	7

Source: CNMV.

Statistical annexes IV

Number of shareholders with a significant holding in Ibex 35 companies¹ IV.1

Company	Stake			
	5%-10%	10%-25%	25%-50%	50%-100%
Abertis	2	2	-	-
Acciona	-	-	-	1
Acerinox	1	3	-	-
ACS	-	3	-	-
Altadis	4	1	-	-
Antena 3	1	1	1	-
Banco Popular	2	1	-	-
Banco Sabadell	1	-	-	-
Banesto	-	-	-	1
Bankinter	1	2	-	-
BBVA	2	-	-	-
BSCH	3	-	-	-
Cintra	-	-	-	1
Enagás	6	1	-	-
Endesa	2	1	-	-
Fadesa	-	-	-	1
FCC	-	1	-	1
Ferrovial	-	-	-	1
Gamesa	3	3	1	-
Gas Natural	1	-	2	-
Iberdrola	2	1	-	-
Iberia	4	1	-	-
Inditex	2	-	-	1
Indra	5	1	-	-
Mapfre	-	-	-	1
Metrovacesa	1	1	2	-
NH Hoteles	4	2	1	-
Prisa	-	-	-	1
REE	1	1	-	-
Repsol YPF	2	2	-	-
Sacyr	5	3	-	-
Sogecable	1	1	1	-
Telecinco	1	1	-	1
Telefónica	3	-	-	-
Unión Fenosa	2	1	1	-
Total	62	34	9	10

Source: CNMV.

1. Make-up of the Ibex 35 at year-end.

Credit institutions with five or more complaints and type of resolution

IV.2

	Reports favourable to claimant		Reports not favourable to claimant		Resolved by mutual agreement and withdrawn		Report without official announcement	
	Number	% total	Number	% total	Number	% total	Number	% total
Bankinter	16	59.3	10	37.0	1	3.7	0	0.0
Deutsche Bank	6	50.0	4	33.3	2	16.7	0	0.0
Boursorama sucursal en España	5	45.5	3	27.3	3	27.3	0	0.0
Open Bank Santander Consumer	5	45.5	1	9.1	5	45.5	0	0.0
Caja de Ahorros del Mediterráneo	3	42.9	3	42.9	1	14.3	0	0.0
UNO E Bank	2	40.0	2	40.0	1	20.0	0	0.0
ING Direct, N.V., sucursal en España	3	37.5	5	62.5	0	0.0	0	0.0
Ibercaja	14	35.0	22	55.0	4	10.0	0	0.0
Banco Español de Crédito	8	34.8	12	52.2	3	13.0	0	0.0
Barclays Bank	5	33.3	8	53.3	2	13.3	0	0.0
Banco Inversis net	3	33.3	5	55.6	0	0.0	1	8.3
Banco Santander Central Hispano	38	26.4	82	56.9	22	15.3	2	16.7
Caja de Ahorros y Monte de Piedad de Madrid	8	23.5	20	58.8	6	17.6	0	0.0
Banco Bilbao Vizcaya Argentaria	13	20.6	34	54.0	16	25.4	0	0.0
Caixa d'Estalvis de Catalunya	1	20.0	3	60.0	1	20.0	0	0.0
Renta 4, S.V.	1	20.0	4	80.0	0	0.0	0	0.0
Caja de Ahorros y Pensiones de Barcelona	2	16.7	9	75.0	1	8.3	0	0.0
Banco de Sabadell	2	13.3	10	66.7	2	13.3	1	8.3

Source: CNMV.

Reference	Resolution
(1/06)	CNMV Board Resolution dated 17 January 2006 Resolution on disciplinary proceedings against an issuer and several members of its board of directors for the alleged committing of a serious violation of article 100 w) of the Securities Market Law —market manipulation—. The company was fined 100,000 euros and physical individuals were fined a blanket amount of 55,000 euros.
(2/06)	Ministerial Order dated 25 January 2006 Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99 o) of the Securities Market Law —insider trading—. Fine of 30,050.61 euros.
(3/06)	Ministerial Order dated 10 March 2006 Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99 o) of the Securities Market Law —insider trading—. Fine of 682,555 euros.
(4/06)	CNMV Board Resolution dated 28 March 2006 Resolution of a disciplinary proceeding against an investment services firm for the alleged committing of a serious breach of article 100 t) of the Securities Market Law —breach of codes of conduct—. Fine of 30,000 euros.
(5/06)	CNMV Board Resolution dated 28 March 2006 Resolution of a disciplinary proceeding against an investment services firm for the alleged committing of a serious breach of article 100 t) of the Securities Market Law —breach of codes of conduct—, and against a public limited company and its administrator for the alleged committing of a serious breach of article 100 o) of the Securities Market Law —breach of resolution of activity—. Investment services firm fined 50,000 euros, the public limited company fined 25,000 euros and its administrator fined 9,000 euros.
(6/06)	CNMV Board Resolution dated 25 April 2006 Resolution on disciplinary proceedings against a limited company and its sole administrator for the alleged committing of a serious violation of article 99 w) of the Securities Market Law —market manipulation—. Both cleared of liability.
(7/06)	CNMV Board Resolution dated 25 April 2006 Resolution of a disciplinary proceedings against an investment services firm and its chairman and managing director for the alleged committing of a serious breach of article 100 t) of the Securities Market Law —breach of codes of conduct—. The investment services firm fined 30,000 euros and the physical individual 15,000 euros.
(8/06)	Ministerial Order dated 10 May 2006 Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99 o) of the Securities Market Law —insider trading—. Fine of 60,000 euros.
(9/06)	Ministerial Order dated 05 June 2006 Resolution of disciplinary proceedings against the physical individual representing an investment services firm for two alleged serious breaches of article 99 p) of the Securities Market Law —one for breach of the reservation of activity, and the second for breach of the rules of representation—. Fined 36,000 and 6,000 euros respectively.
(10/06)	Ministerial Order dated 03 July 2006 Resolution of a disciplinary proceedings against an investment services firm and its chairman and managing director for the alleged committing of a serious breach of article 99 f) of the Securities Market Law —breach of bookkeeping entries—. The investment services firm fined 100,000 euros and the physical individual 30,000 euros.

Reference	Resolution
(11/06)	Ministerial Order dated 15 September 2006
	Resolution of a disciplinary proceeding against a investment services firm for the alleged committing of a serious breach of article 99 l) of the Securities Market Law —breach of obligation set forth in article 70 of the same legal text—. Fine of 30,000 euros.
(12/06)	CNMV Board Resolution dated 26 October 2006
	Resolution of disciplinary proceeding against the resident investment services firm and a non-resident investment fund management company, for the alleged committing of a serious breach of article 99 o) of the Securities Market Law —the investment services company for passing on inside information and the management company for using it—. Cleared.
(13/06)	CNMV Board Resolution dated 26 October 2006
	Resolution of disciplinary proceedings against an issuer for the alleged serious breach of article 100 b) of the Securities Market Law —failure to prepare and publish the annual report on corporate governance—. Fine of 6,000 euros.
(14/06)	CNMV Board Resolution dated 26 October 2006
	Resolution of disciplinary proceedings against an issuer for the alleged serious breach of article 100 b) of the Securities Market Law —failure to prepare and publish the annual report on corporate governance—. Fine of 12,000 euros.
(15/06)	CNMV Board Resolution dated 26 October 2006
	Resolution of disciplinary proceedings against an issuer for the alleged serious breach of article 100 b) of the Securities Market Law —failure to prepare and publish the annual report on corporate governance—. Fine of 12,000 euros.
(16/06)	Ministerial Order dated 29 November 2006
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99 p) of the Securities Market Law (failure to disclose significant holdings within the legally-established deadline). Fine of 12,000 euros.
(17/06)	Ministerial Order dated 12 December 2006
	Resolution on disciplinary proceedings against a non-resident credit institution for an alleged serious breach under article 99 o) of the Securities Market Law —passing on inside information—. Fined 1,000,000 euros and suspended from accelerated brokerage operations concerning Spanish securities for a period of three months.
(18/06)	CNMV Board Resolution dated 29 December 2006
	Resolution of disciplinary proceeding against two investment services companies (broker and portfolio management company) for three alleged breaches of article 100 b) of the Securities Market Law —failure to send compulsory reports—, two applicable to the broker of one to the management company. Two fines totalling 12,000 euro were imposed on the broker and the management company was fined 6,000 euros. A member of the board of directors of both investment services companies were fined a blanket amount of 18,000 euros.

Source: CNMV.

No.	Date	Court	Appeal No.	Appealed order
1	21/01/2006	National Court	507/2004	Ministry of Economy and Finance Order 01/09/2004
Upheld the penalties imposed by Ministry of Economy and Finance Order dated 1 September 2004 for two serious breaches of the Collective Investment Scheme Act —article 32.3, a) and j)—.				
2	24/01/2006	National Court	447/2004	Ministry of Economy and Finance Order 20/09/2004
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 20 September 2004 for serious breach of article 100 w) of the Securities Market Law.				
3	27/01/2006	National Court	459/2003	Ministry of Economy Order 27/06/2003
Upheld the penalty imposed by Ministry of Economy Order dated 27 June 2003 for serious breach of article 99 w) of the Securities Market Law.				
4	27/01/2006	National Court	503/2004	Ministry of Economy and Finance Order 1/09/2004
Upheld the penalties imposed by Ministry of Economy and Finance Order dated 1 September 2004 for various serious and minor breaches of the Collective Investment Scheme Act —articles 32.3 a) and j), and 32.2 c) , d) and f)— as well as a serious breach of article 100 n) of the Securities Market Act.				
5	07/02/2006	Supreme Court	7/2000	National Court decision 12/02/2003
Upheld the National Court decision of 12 February 2003 which rejected administrative appeal 7/2000 against Ministry of Economy and Finance Order dated 18 November 1999 that imposed a penalty for breach of article 99 h) of the Securities Market Law.				
6	17/03/2006	National Court	599/2004	Ministry of Economy and Finance Order 13/12/2004
Upheld the penalty imposed by Ministry of Economy in Finance Order dated 13 December 2004 for serious breach of article 100 w) of the Securities Market Law.				
7	17/03/2006	National Court	601/2004	Ministry of Economy and Finance Order 13/12/2004
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 13 December 2004 for serious breach of article 100 w) of the Securities Market Law.				
8	20/03/2006	Supreme Court	2/2000	National Court decision 10/01/2002
Upheld the National Court decision of 10 January 2002 which rejected administrative appeal 2/2000 against Ministry of Economy and Finance Order dated 22 September 1999 that imposed a penalty for breach of article 99 s) of the Securities Market Law.				
9	21/03/2006	National Court	45/2004	Ministry of Economy Order 24/11/2003
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 24 November 2003 for very serious breach of the Collective Investment Scheme Act —article 32.4 e)—.				
10	30/03/2006	National Court	68/2004	Ministry of Economy Order 19/12/2003
Upheld the penalty imposed by Ministry of Economy Order dated 19 December 2003 for very serious breaches of articles 99 q) and l) of the Securities Market Law.				
11	31/03/2006	National Court	74/2004	Ministry of Economy Order 19/12/2003
Upheld the penalty imposed by Ministry of Economy Order dated 19 December 2003 for very serious breaches of articles 99 q) and l) of the Securities Market Law.				

No.	Date	Court	Appeal No.	Appealed order
12	03/04/2006	National Court	61/2005	Ministry of Economy and Finance Order 29/11/2004
Upheld the penalties imposed by Ministry of Economy and Finance dated 29 November 2004 for two very serious breaches, one of article 99 l) of the Securities Market Law and another of article 32.4 m) of the Collective Investment Scheme Act.				
13	05/04/2006	National Court	567/2004	Ministry of Economy and Finance Order 17/11/2004-22/11/2004
Upheld the penalty imposed by Ministry of Economy in Finance Order dated 17 and 22 November 2004 for serious breach of article 100 w) of the Securities Market Law.				
14	06/04/2006	National Court	44/2004	Resolution of the CNMV Board 25/2/2003
Upheld the penalty imposed by the resolution of the CNMV Board dated 25 February 2003 for serious breach of article 100 w) of the Securities Market Law.				
15	12/06/2006	National Court	145/2004	Ministry of Economy and Finance Order 9/03/2004
Partially upheld the administrative appeal lodged against the Ministry of Economy and Finance Order dated 9 March 2004 which imposed penalties for serious breach of article 99 l) of the Securities Market Law. Upheld the Order except for the amount of the penalties imposed which was changed to a lower amount.				
16	16/06/2006	National Court	83/2004	Ministry of Economy Order 18/12/2003
Upheld the penalty imposed by Ministry of Economy Order dated 18 December 2003 for serious breach of article 100 o) of the Securities Market Law.				
17	30/06/2006	National Court	419/2004	Ministry of Economy and Finance Order 21/09/2004
Upheld the penalty imposed by Ministry of Economy Order dated 21 September 2004 for very serious breaches of article 100 c), m) and t) of the Securities Market Law.				
18	30/06/2006	National Court	409/2004	Ministry of Economy Order 23/03/2004
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 23 March 2004 for minor breach of the Collective Investment Scheme Act —article 32.2 f)—.				
19	30/06/2006	National Court	443/2004	Ministry of Economy and Finance Order 1/09/2004
Upheld the penalty imposed by Ministry of Economy in Finance Order dated 1 September 2004 for serious breach of article 100 t) of the Securities Market Law.				
20	30/06/2006	National Court	449/2004	Ministry of Economy and Finance Order 20/09/2004
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 20 September 2004 for very serious breach of the Collective Investment Scheme Act —article 32.4 g)—.				
21	13/09/2006	National Court	730/2003	Ministry of Economy and Finance Order 17/10/2003
Upheld the penalty imposed by Ministry of Economy in Finance Order dated 17 October 2003 for serious breach of article 99 p) of the Securities Market Law.				
22	14/09/2006	National Court	75/2004	Ministry of Economy Order 22/01/2004
Upheld the penalty imposed by Ministry of Economy Order dated 22 January 2004 for serious breach of article 99 ñ) of the Securities Market Law.				
23	16/10/2006	National Court	374/2004	Ministry of Economy Order 12/03/2004
Upheld the penalties imposed by Ministry of Economy Order dated 12 March 2004, for serious breach of article 100 t) of the Securities Market Act and article 32.3 c) and j) of the Collective Investment Scheme Act.				

No.	Date	Court	Appeal No.	Appealed order
24	02/11/2006	National Court	130/2004	Ministry of Economy and Finance Order 22/01/2004
Upheld the penalty imposed by Ministry of Economy in Finance Order dated 22 January 2004 for serious breach of article 99 ñ) of the Securities Market Law.				
25	20/11/2006	National Court	217/2006	Ministry of Economy and Finance Order 10/05/2006
Upheld the penalty imposed by Ministry of Economy in Finance Order dated 10 May 2006 for serious breach of article 99 o) of the Securities Market Law.				

Source: CNMV.

Public warnings about unauthorised firms

IV.5

Date	Company warned about	Regulator/supervisor
CNMV warnings about unauthorised firms undergoing disciplinary proceedings		
17/02/2006	Beckham Advisors Alliance, S.L. [B-62777701]	CNMV
31/07/2006	Aurea Negocios, S.L. [B-84379668]	CNMV
28/12/2006	Morton Management, S.L. [B29623295]	CNMV
Other CNMV warnings about unauthorised firms		
30/01/2006	Stratford Advisory Services	CNMV
03/04/2006	New World Financial Europe, S.L.	CNMV
03/07/2006	Aurea Negocios, S.L. [B-84379668]	CNMV
23/10/2006	H.S.F. IBZ, S.L.	CNMV
23/10/2006	Eagle Star International Group	CNMV
20/11/2006	Price-Stone Group, S.L. www.pricestonogroup.com	CNMV
20/11/2006	Hartford Management Group www.grouphartford.com	CNMV
04/12/2006	Daily Report, S.A.	CNMV
Public warnings from other foreign regulators		
18/01/2006	McKenzie Rosenthal & Associates	CBF (Belgium)
18/01/2006	APS International Bank APS bank (<i>sic</i>) APS Group APS Online Banking www.apsgroups.com	FSC (Isle of Man)
18/01/2006	Greenwood Warren Sparda Trust Group	FSC (Isle of Man)
18/01/2006	Advance Fee Fraud Rose Stevie	FSC (Isle of Man)
18/01/2006	Schwartz Woodman Zeus Enterprises	SFC (Hong Kong)
18/01/2006	Standard Credit Banking Corporation	FSC (Isle of Man)
25/01/2006	Gafin Exec Internacional	FSC (Isle of Man)
25/01/2006	Instant Millionaires Promo of Isle	FSC (Isle of Man)
25/01/2006	Equity Security and Finance Company	FSC (Isle of Man)
25/01/2006	Capital Plus Group	NAFM (Netherlands)
25/01/2006	Argus International Limited Forex & Futures International Limited General Traders Hamilton, Gardiner & Associates Nakamura Capital Group TGF Management Services Inc. Yamaichi Investments Ltd.	SFC (Hong Kong)
25/01/2006	Royal Financial & Securities Services	FSC (Isle of Man)

Public warnings about unauthorised firms (*continuation*)

IV.5

Annexes
Statistical annexes IV

Date	Company warned about	Regulator/supervisor
08/02/2006	Siegar Private Limited	FSA (United Kingdom)
08/02/2006	Preston Wainwright Asset Management	FSA (United Kingdom)
08/02/2006	Integra Advisory Group	FSA (United Kingdom)
08/02/2006	Hirshall Group	FSA (United Kingdom)
08/02/2006	First Unions Securities www.firstunionssecurities.net	FSC (Isle of Man)
08/02/2006	Blossom Hill Investments	FSA (United Kingdom)
08/02/2006	Riverton Financial Group www.rivertonfinancialgroup.com	SFC (Hong Kong)
	Swift Asset Management Ltd. www.samhk.com	
	Tri Guard Holdings Limited	
	China Union Group Limited	
08/02/2006	Marshall Eastman Advisory	FSA (United Kingdom)
08/02/2006	Asprey Group LLP www.aspreygroup.com	SFSA (Sweden)
08/02/2006	Kirkland Group Associates www.kirklandgroupassociates.com	SFSA (Sweden)
22/02/2006	APS International Bank APS bank (<i>sic</i>) APS Group APS Online Banking www.apsgroups.com	FSC (Isle of Man)
22/02/2006	Chattered Alliance Bank www.c-alliance.com	FSC (Isle of Man)
22/02/2006	TGF Management Services Inc. Magna Capital Research Transglobal Financial Ltd.	SFC (Hong Kong)
22/02/2006	Whitman Lloyds & Associates Mergers & Acquisitions www.whitmanlloyds.com	SFSA (Sweden)
22/02/2006	Advance Fee Fraud Michael Mann / Michael C. Mann	FSC (Isle of Man)
22/02/2006	McKenzie Rosenthal & Associates	DFSA (Denmark)
22/02/2006	Marshall Eastman Advisory	FSC (Isle of Man)
22/02/2006	Medal Group (A Prebarta Company) www.medal-group.com	FSC (Isle of Man)
22/02/2006	Equity Security and Finance Company ESFC Financial ESFC Group ESFC Haulage www.esfc-online.com	FSC (Isle of Man)
	Northlink Finance and Security Group	

Public warnings about unauthorised firms (*continuation*)

IV.5

Date	Company warned about	Regulator/supervisor
01/03/2006	Advance Fee Fraud Michael Mann / Michael C. Mann	FSC (Isle of Man)
01/03/2006	APTFund www.aptfund.com e.gotrade Innova Equity Irving Horowitz Mergers and Acquisitions Nova Corporate Services	SFC (Hong Kong)
01/03/2006	Portman West Financial Services Inc.	SFSA (Sweden)
01/03/2006	Select Capital Management Corporation	NAFM (Netherlands)
08/03/2006	Donavan & Yung Partners www.donavanyung.com Sino Options Trading Limited www.sino-options.com	SFC (Hong Kong)
08/03/2006	Aston Rowe Consulting Advisory	FSC (Isle of Man)
08/03/2006	Oxford Finance & Security Services www.ofssnet.net	FSC (Isle of Man)
08/03/2006	Legend Merchant Group Inc. www.legendmerchant.com	NAFM (Netherlands)
08/03/2006	Pacific Banking Corporation Pacific Banking Intertrust www.e-pacificgroup.net www.e-pacificonline.net www.espacific.net	FSC (Isle of Man)
08/03/2006	Dr Mechee Kings	FSC (Isle of Man)
08/03/2006	South Pacific Bank www.spbonline.co.uk	FSC (Isle of Man)
08/03/2006	Dr. Donald Eezeh	FSC (Isle of Man)
08/03/2006	Michael Bogash	FSC (Isle of Man)
08/03/2006	Smith Williams	FSC (Isle of Man)
15/03/2006	Delta IMT	DFSA (Denmark)
15/03/2006	Ashton Trading	SFSA (Sweden)
15/03/2006	First Dominion Capital Corp.	SFSA (Sweden)
15/03/2006	Magnusson Edward Olympia Corporate Services www.magnussonedward.com www.olympiacorpserv.com	SFC (Hong Kong)
15/03/2006	Universal Networks, Inc.	SFSA (Sweden)
22/03/2006	Magna Capital Research APTFund www.aptfund.com World Trade Financial Group www.worldtradefinancialgroup.com www.magnacapitalresearch.com	SFC (Hong Kong)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
22/03/2006	Michael Mann / Michael C. Mann	FSC (Isle of Man)
22/03/2006	Trenton Hassel Investment Limited	NAFM (Netherlands)
22/03/2006	CCS Holdings, Inc.	GFSC (Gibraltar)
22/03/2006	Kirkland Group Associates	NAFM (Netherlands)
22/03/2006	Nancy Grands	FSC (Isle of Man)
22/03/2006	Mutual Finance and Securities www.mfsweb.org	FSC (Isle of Man)
22/03/2006	Montero Finance & Securities www.monteroweb.net	FSC (Isle of Man)
22/03/2006	Gulf Finance Group www.gulffin.org	FSC (Isle of Man)
22/03/2006	Delta Trust Bank Delta Trust www.deltastrust.com	FSC (Isle of Man)
22/03/2006	Bond Finance Services	FSC (Isle of Man)
22/03/2006	Trix Finance & Trust Co. www.trixfinance.com	JFSC (Jersey)
22/03/2006	Great Cities Media, Inc. www.great-cities.com	SFSA (Sweden)
29/03/2006	Randstad Securities & Vaults www.ranstad-online.org Banco National Bank www.banconat.org Afper Finance www.afpernet.com	FSC (Isle of Man)
29/03/2006	Concordant Group Ltd. www.concordantgrouplimited.com Legacy Holdings International Ltd. Merit Capital Group Safecoe Holdings International Ltd.	SFC (Hong Kong)
19/04/2006	Silverstone Management S.L. www.silverstonemanagement.biz	NAFM (Netherlands)
19/04/2006	Bruno Beuriot Gestion	AMF (France)
19/04/2006	False Investment Tips	AMF (France)
19/04/2006	DTZ Investment Group & Financial Securities www.dbi-online.net	FSC (Isle of Man)
19/04/2006	Nishimurama Mergers and Acquisitions	NAFM (Netherlands)
19/04/2006	Amalgamated Credit Union www.amcreunion.com	FSC (Isle of Man)
19/04/2006	Andrew Turnpike	FSC (Isle of Man)
19/04/2006	First Union Finance www.fufina.com	FSC (Isle of Man)
19/04/2006	Axiom Trust Private Bank www.axiomtrustpb.com/bank/	JFSC (Jersey)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
19/04/2006	CertiGroup	SSMA (Slovenia)
19/04/2006	Swiss Invest Ltd. info@swis-invest.com	SSMA (Slovenia)
19/04/2006	Trustco Finance PLC www.trustcofin.com City Bank Services & Security PLC www.cbsspl.com	FSC (Isle of Man)
19/04/2006	Michael Webber	FSC (Isle of Man)
26/04/2006	Mega Trust Financial Services	FSC (Isle of Man)
26/04/2006	Temenos Group AG	SFBC (Switzerland)
26/04/2006	Anglo Swiss Consulting	FSA (United Kingdom)
26/04/2006	Aston Rowe Consulting Inc.	FSA (United Kingdom)
26/04/2006	Gatemoor Securities Inc.	FSA (United Kingdom)
26/04/2006	Grandby Trading Investment Corporation	FSA (United Kingdom)
26/04/2006	Taylor King & Associates	FSA (United Kingdom)
26/04/2006	Great Eastern Securities Inc.	FSA (United Kingdom)
26/04/2006	Zen Investment	FSA (United Kingdom)
26/04/2006	Unified Investment Group Inc.	FSA (United Kingdom)
26/04/2006	HCG International	FSA (United Kingdom)
26/04/2006	Heritage Mergers & Acquisitions Ltd.	FSA (United Kingdom)
26/04/2006	International Equity Advisors Inc.	FSA (United Kingdom)
26/04/2006	J. P. Stuart and Associates	FSA (United Kingdom)
26/04/2006	Kavanaugh	FSA (United Kingdom)
26/04/2006	Kent Financial Advisors Inc.	FSA (United Kingdom)
26/04/2006	Madison & Silver Asset Management Inc.	FSA (United Kingdom)
26/04/2006	Marshall Lambert Group	FSA (United Kingdom)
26/04/2006	Morgan Philips Advisory	FSA (United Kingdom)
26/04/2006	Omega Financial Services	FSA (United Kingdom)
26/04/2006	Perpetual Suisse	FSA (United Kingdom)
26/04/2006	Portman Manaheim Group	FSA (United Kingdom)
26/04/2006	Premier Asset Management LLC	FSA (United Kingdom)
26/04/2006	Radisson Venture Capital	FSA (United Kingdom)
10/05/2006	Fund Insurance Management Corporation	GFSC (Gibraltar)
10/05/2006	Gafin Exec International www.gafinexec.com	FSC (Isle of Man)
10/05/2006	Novantae Capital Holdings www.novantae.com	HCMC (Greece)
10/05/2006	Scorpion Performance Inc. www.scorpionperformance.com	SFSA (Sweden)
10/05/2006	Delta Trade Financial Group www.deltatradefinancial.com	SFSA (Sweden)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
10/05/2006	Stockton www.Stockton.cz	SFSA (Sweden)
17/05/2006	Stonewell Finance www.stonewellfinance.com	SFSA (Sweden)
17/05/2006	Ci Com SA Nextrom Holding AG	SFBC (Switzerland)
17/05/2006	Akzenta SA www.akzenta.org	AMF (France)
17/05/2006	Emmi Ltd.	SFBC (Switzerland)
17/05/2006	DTZ Investment Group & Financial Securities www.dbi-online.net	FSC (Isle of Man)
17/05/2006	Schweizerische Rückversicherungs-Gesellschaft ("Swiss Re")	SFBC (Switzerland)
17/05/2006	UTB Finance & Security Services www.utbfinsecurities.org	FSC (Isle of Man)
24/05/2006	Venta Capital Private Management Group Ltd.	NAFM (Netherlands)
24/05/2006	Charles Fleming Co., Ltd. Bidvask Investment Limited www.bidvask.com www.charlesfleming.net China Cosmos Investments Limited	SFC (Hong Kong)
31/05/2006	Godfrey Brooks Investment Advisory (Switzerland)	EI CBI (Ireland)
14/06/2006	USL, Universal Savings & Loan Bank http://www.usl1bank.com/aboutus.asp	SFSA (Sweden)
14/06/2006	Bryce and Sons, Ltd. www.bryceandsons.com	SFSA (Sweden)
14/06/2006	Stonewell Finance www.stonewellfinance.com F-Easy Investments Co. www.f-easy.com	SFC (Hong Kong)
21/06/2006	Prestige Mergers and Acquisitions Corp. www.prestigemc.us	NAFM (Netherlands)
21/06/2006	Citizens Equity Limited www.citizensequity.org	FSC (Isle of Man)
21/06/2006	Stein and Fitzgerald Associates	CBF (Belgium)
21/06/2006	Clyde Group PLC www.clydegroup.co.uk	FSC (Isle of Man)
21/06/2006	Silverthorne and Chambers Inc. (S&C) www.silverthornechambers.com	SFSA (Sweden)
28/06/2006	Chapman Butler LLC	FSA (United Kingdom)
28/06/2006	Global Administrative Providers Inc.	FSA (United Kingdom)
28/06/2006	Lloyd Stanley (based in Switzerland)	FSA (United Kingdom)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
28/06/2006	Alberich Gerhard Securities Worldwide (aka A G Securities)	FSA (United Kingdom)
28/06/2006	Marshall Stanwick	FSA (United Kingdom)
28/06/2006	Wellington-Duke & Associates	FSA (United Kingdom)
28/06/2006	Morgan Hurst	FSA (United Kingdom)
28/06/2006	Standford Long	FSA (United Kingdom)
28/06/2006	Stephenson Moore Consulting	FSA (United Kingdom)
28/06/2006	Stein Fitzgerald Associates Stein Fitzgerald Group	AMF (France)
28/06/2006	ACPM Consutling Group	FMA (Austria)
28/06/2006	Free Port Securities www.freeportsecurities.co.uk	FSC (Isle of Man)
28/06/2006	E1 Asset Management Inc.	FSC (Isle of Man)
28/06/2006	Kuoni Reisen Holding AG	SFBC (Switzerland)
28/06/2006	Arcfin Group	FSA (United Kingdom)
28/06/2006	Bishop & Parkes Advisory	FSA (United Kingdom)
28/06/2006	Hamilton Pierce	FSA (United Kingdom)
28/06/2006	Morrison Douglas	FSA (United Kingdom)
28/06/2006	Murdoch Finch Associates	FSA (United Kingdom)
05/07/2006	Swisscash www.swisscash.biz	SFC (Hong Kong)
05/07/2006	Remington York Ltd. Remington FTSE Index Funds Remington Index Funds FTSE Index Funds	FSC (Isle of Man)
05/07/2006	Brubacher & Associates	SFSA (Sweden)
05/07/2006	Stonewell Finance	EI CBI (Ireland)
05/07/2006	Eaton Capital Americas www.eatoncapitalamericas.com	SFSA (Sweden)
05/07/2006	SBI International Law Associates Mergers & Acquisitions www.sbiinterlaw.com	SFSA (Sweden)
05/07/2006	Link Mergers & Acquisitions www.linkmna.com	SFSA (Sweden)
05/07/2006	Millenia Strategies www.millenia-strategies.com	SFSA (Sweden)
05/07/2006	Reynold Brown Associates www.reynoldbrown.com	SFSA (Sweden)
12/07/2006	Auditor Henry Miller	FSC (Isle of Man)
12/07/2006	Bankers Trust International www.btiplonline.com	FSC (Isle of Man)
12/07/2006	Signature Consulting Ltd. www.signatureconsulting.com	SFSA (Sweden)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
12/07/2006	Harrington Holdings Inc. www.harringtonholdingsinc.com	SFSA (Sweden)
12/07/2006	Green Cap Financial LLC www.greencapfinancialllc.com	SFSA (Sweden)
12/07/2006	First Dominion Capital Corp.	SFSA (Sweden)
12/07/2006	Carlton Global Management www.carltonkorea.com	SFSA (Sweden)
12/07/2006	Abnat Secure PLC www.abnatplcsecure.com	FSC (Isle of Man)
12/07/2006	Blue Sky Solutions Inc. www.blueskysolutionsinc.com	SFSA (Sweden)
12/07/2006	TGF Management Services Inc. www.tgfservices.com	NAFM (Netherlands)
12/07/2006	www.citizensequity.org Citizen Equity Limited	JFSC (Jersey)
12/07/2006	Excel Homes Plc www.excelhomesonline.com	JFSC (Jersey)
12/07/2006	Martin Campbell John Morris	FSC (Isle of Man)
19/07/2006	Macc Group Maccfx Macc Forex www.maccfx.com	NAFM (Netherlands)
19/07/2006	Cooper&Price www.cooperprice.com Cooper&Price Management Cooper&Stocks Hous Morgan&Bonds Morgan&Bonds Management MB&Stocks Hous www.morganbonds.com	SFC (Hong Kong)
19/07/2006	Bankers Trust International www.btiplconline.com www.btisecureplc.com	FSC (Isle of Man)
19/07/2006	Kapital Equity Unlimited www.kapitalequity.org	JFSC (Jersey)
19/07/2006	Kapital Equity Unlimited Kapital Equity Limited Kapital Bank (Isle of Man) Limited www.kapitalequity.org	FSC (Isle of Man)
26/07/2006	www.fortiswm.com	SFC (Hong Kong)
26/07/2006	Global Trust Asset Management / Vaulting Company	FSC (Isle of Man)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
26/07/2006	IBPS Alliance Bank	FSC (Isle of Man)
26/07/2006	Mr. James Crobsy HBSOC Plc	FSC (Isle of Man)
26/07/2006	Oxbridge International Limited	AMF (France)
26/07/2006	SHL Telemedicine Ltd.	SFBC (Switzerland)
26/07/2006	Affichage Holding	SFBC (Switzerland)
02/08/2006	Castlepeak and Sons, Ltd. www.castlepeakandsons.com	NAFM (Netherlands)
09/08/2006	GLG Partners LP Philippe Jabre	FSA (United Kingdom)
09/08/2006	Global Market Group Limited Global Market Group LLC Masters & Bettman www.mastersbettman.com Whitman Pearce & Partners www.whitmanpearce.com	SFC (Hong Kong)
09/08/2006	Jean-Pierre Gallien	AMF (France)
09/08/2006	Ci Com SA	SFBC (Switzerland)
16/08/2006	New World Financial Europe, S.L. www.nwfs.com	NAFM (Netherlands)
16/08/2006	Hibber Bothwell Capital Partners www.hibber-bothwell.com	DFSA (Denmark)
16/08/2006	Abbey House Acquisitions www.abbeyhouseacquisitions.com	SFC (Hong Kong)
23/08/2006	DRC Europe	FSC (Isle of Man)
23/08/2006	Mascot Walters	FSC (Isle of Man)
23/08/2006	Mr. James Crobsy Mr. Jon Irkle	FSC (Isle of Man)
23/08/2006	New World Financial Europe, S.L.	FSC (Isle of Man)
23/08/2006	Ulster Bank Investment Offer	FSC (Isle of Man)
23/08/2006	Stockton s.r.o.	FSC (Isle of Man)
23/08/2006	Brentwood Trust Company www.brentwoodtrust.com	SFSA (Sweden)
23/08/2006	Link Mergers & Acquisitions Imperial Trust LLC www.imperialtrustllc.com International Securities Tax Commission www.istcommission.us	SFC (Hong Kong)
23/08/2006	www.Stockton.cz Stockton s.r.o.	NAFM (Netherlands)
20/09/2006	www.nwfs.com New World Financial www.nwfinc.com	FMA (Austria)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
20/09/2006	HB Capital Partners www.hbcapitalpartners.net	FSAN (Norway)
20/09/2006	Atlantic Capital Management	EI CBI (Ireland)
20/09/2006	Jupiter Advisory	EI CBI (Ireland)
20/09/2006	Barlow & Ramsey www.barlowramsey.com	NAFM (Netherlands)
20/09/2006	Maynard Maclain Trading Company Ltd. Maynard Maclain Ltd. Maynard Maclain Fx, Inc. www.maynard-maclain.com	NAFM (Netherlands)
20/09/2006	Card Guard AG	SFBC (Switzerland)
20/09/2006	Leclanché S.A.	SFBC (Switzerland)
20/09/2006	Synthes Inc.	SFBC (Switzerland)
20/09/2006	Barlow & Ramsey www.barlowramsey.com	FMA (Austria)
20/09/2006	Unaxis Holding Ltd.	SFBC (Switzerland)
20/09/2006	Southern Cross Mergers and Acquisitions www.southerncrossma.com	SFSA (Sweden)
20/09/2006	Advanced Digital Broadcast Holdings S.A.	SFBC (Switzerland)
20/09/2006	Aims World Asset & Investment Management Services www.aims-world.com	SFSA (Sweden)
20/09/2006	Alv Group www.alvgroup.com	SFSA (Sweden)
20/09/2006	Aspen Payne Consulting www.aspenpayneconsulting.com	SFSA (Sweden)
20/09/2006	Dunleavy Management Ltd. www.dunleavymanagement.com	SFSA (Sweden)
20/09/2006	Friedman Holland & Associates www.fh4law.com	SFSA (Sweden)
20/09/2006	H.B. Management	SFSA (Sweden)
20/09/2006	Pearlstar Corporation	SFSA (Sweden)
20/09/2006	Prescott Fitzgerald www.pfwealth.com	SFSA (Sweden)
20/09/2006	Voyager Investment Management www.voyagerim.com	SFSA (Sweden)
27/09/2006	SBI International Law Associates Mergers & Acquisitions	AMF (France)
27/09/2006	Galileo Asset Management S.A. www.galileoam.com	SFSA (Sweden)
27/09/2006	Global Recovery Alliance, Ltd. www.globalra.com	SFSA (Sweden)
27/09/2006	Eagle Fininvest and Alys Consulting Corp.	AMF (France)
27/09/2006	Internationale Zurich Gruppe www.interzurich.com	SFSA (Sweden)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
27/09/2006	Swisscom AG	SFBC (Switzerland)
27/09/2006	The Ritland Group Pte, Ltd. www.ritlandgroup.com	SFSA (Sweden)
27/09/2006	Riverside MG www.riversidemg.com	SFSA (Sweden)
27/09/2006	Standard Wealth Management Corp.	SFSA (Sweden)
04/10/2006	Lowe & Lane Asset Management www.lowelane.com	SFSA (Sweden)
11/10/2006	Goldmill Wagner & Associates (Costa Rica) Whitman Pearce & Partners (Costa Rica) Eaton Capital Americas (Belize/Guatemala) Allied Champ Investments (Canadá) Link Mergers and Acquisitions (Estados Unidos)	CSSF (Luxembourg)
11/10/2006	Wall Street Direct www.wallstreetdirect.net	SFSA (Sweden)
11/10/2006	J. S. Knight & Co. Ltd.	FSA (United Kingdom)
11/10/2006	Advertencia Genérica	GFSC (Gibraltar)
11/10/2006	Warren Group www.warrengroupusa.net	SFC (Hong Kong)
11/10/2006	LGT Liebrecht HIB http://lgt-leibrecht-hib.tripod.com/	FSC (Isle of Man)
11/10/2006	Goldman Asset Management www.goldmanam.com	SFSA (Sweden)
11/10/2006	Greenfield Consulting Ltd www.greenfieldconsultltd.com	SFSA (Sweden)
11/10/2006	KLM Law Associates www.klmlawassoc.com	SFSA (Sweden)
11/10/2006	Liberty Asset Management	SFSA (Sweden)
11/10/2006	Lombard Smith & Co. www.lombardsmith.com	SFSA (Sweden)
18/10/2006	Serono S.A.	SWX (Switzerland)
25/10/2006	CTA Bank www.ctabank.com	CBF (Belgium)
25/10/2006	J. S. Knight & Co. Ltd.	FSA (United Kingdom)
25/10/2006	Diversified Capital Management Ltd. www.dcmanagementonline.com	SFSA (Sweden)
25/10/2006	www.alibgroup.info www.alcbplc.com	FSC (Isle of Man)
25/10/2006	Bankers Trust International www.btiplonline.com	FSC (Isle of Man)
25/10/2006	Federal Express Diplomatic & Courier Service www.federalexpressdiplomatic.net	FSC (Isle of Man)

Public warnings about unauthorised firms (continuation)

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Date	Company warned about	Regulator/supervisor
25/10/2006	Mailpost Express www.mpsxpr.com	FSC (Isle of Man)
25/10/2006	Lomax & Partner Services Limited Lomax & Partner Services Limited (<i>sic</i>)	FSC (Isle of Man)
25/10/2006	Hansard Services S.A. Dr. Khalid Omar M. A. Nuri Edward T. Martin	FSC (Isle of Man)
25/10/2006	HBO Group UK	FSC (Isle of Man)
25/10/2006	Larry Bodricks	FSC (Isle of Man)
08/11/2006	Sirius Financial www.sirius-financial.net	FSAN (Norway)
08/11/2006	Southern Cross Mergers and Acquisitions	AMF (France)
08/11/2006	Steinman Brooks & Associates www.sba4law.com	SFSA (Sweden)
08/11/2006	Norbert Associates www.norbertassociates.com	NAFM (Netherlands)
08/11/2006	Digital 1 Media, Inc. www.digital1media.com	SFSA (Sweden)
08/11/2006	GC Investment Credit & Trust Ekonomisk Förening www.gcict.com	SFSA (Sweden)
08/11/2006	Williams Group, Financial Services www.williamsgrpfinancialserv.com	SFSA (Sweden)
08/11/2006	Global Link Mergers & Acquisitions www.globallinkma.com	SFSA (Sweden)
08/11/2006	Mason Ross Investments Ltd.	SSMA (Slovenia)
08/11/2006	Morley Thompson Inc. www.morleythompson.com	SFSA (Sweden)
08/11/2006	Nelson Financial Group	SFSA (Sweden)
08/11/2006	Sentinel Trading Investment Corporation www.sentineltrading.com	SFSA (Sweden)
15/11/2006	IDS International Diplomatic Security	FSC (Isle of Man)
15/11/2006	Gateway Corporate Services Limited Hero Elegant Global Services Limited www.heroglobal.com.cn Leonard Berney and IPM Investment Program Management Honesty International Holdings Limited www.hih168.com The Xenon Group www.thexenoncompany.com Gordon Stanford Acquisitions	SFC (Hong Kong)
15/11/2006	Alain Colpin	FSC (Isle of Man)
22/11/2006	Silicon Valley Financial Incorporated www.svfi.net	SFSA (Sweden)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
22/11/2006	Merchant Lerner & Associates www.merchantlerner.com	SFC (Hong Kong)
	Newman Bell Mergers & Acquisitions www.newmanbell.com	
	Pan-Index Limited www.pan-index.com 888.pan-index.com	
22/11/2006	Westminster Market Research & Management www.westminstermanagementinc.com	SFSA (Sweden)
22/11/2006	Charterhouse Trust Credit Union Ek. för.	SFSA (Sweden)
22/11/2006	Bryce and Sons, Ltd. www.bryceandsons.com	NAFM (Netherlands)
22/11/2006	Bankers Trust International www.bti-plconline.info	FSC (Isle of Man)
29/11/2006	The Tidal Group	SFC (Hong Kong)
29/11/2006	Private Commercial Office, Inc.	FMA (Austria)
29/11/2006	Bluecrest International Capital, Inc. www.bluecrestintl.com	SFSA (Sweden)
29/11/2006	First China Corporate Management Group www.firstchinacmg.com	FMA (Austria)
29/11/2006	1911 Direct Sparkasse Ekonomisk Förening www.sparkasse.se	SFSA (Sweden)
29/11/2006	D. Keffel-Fallah	FMA (Austria)
29/11/2006	The Ashton Lewis Group www.theashtonlewisgroup.com	SFSA (Sweden)
13/12/2006	Reynold Brown Associates www.reynoldbrown.com	NAFM (Netherlands)
13/12/2006	Mr Robert Ménard	AMF (France)
13/12/2006	Lorne Trust Asset Management / Vaulting Company Limited Mr Ryan McCourt (<i>sic</i>)	FSC (Isle of Man)
13/12/2006	Imperial Trust LLC	NAFM (Netherlands)
13/12/2006	Pinnacle Credit and Finance http://www.pinnaclecandf.com	FSC (Isle of Man)
13/12/2006	Platinum Index www.platinumindex.com	SFSA (Sweden)
13/12/2006	Crown Cave Finance and Credit Union http://www.crowncave.net	FSC (Isle of Man)
13/12/2006	Klein International www.kleininternational.net	JFSC (Jersey)
13/12/2006	NationWide Bank www.nationwideb.com	JFSC (Jersey)

Public warnings about unauthorised firms (*continuation*)

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Date	Company warned about	Regulator/supervisor
13/12/2006	Edzell Ventures www.edzell-ventures.com	SFSA (Sweden)
13/12/2006	Fitzwilliam Group Limited www.fitzwilliamgroup.com	SFSA (Sweden)
13/12/2006	Harper & Davis Associates www.harperdavis.com	SFSA (Sweden)
13/12/2006	Intercapital Management Fund Limited www.intercapitalmanagement.com	SFSA (Sweden)
13/12/2006	Knightsbridge Wealth Management AG www.kbwm.ch	SFSA (Sweden)
13/12/2006	Lloyd Brown Investments, Inc. www.lloydbrowninvestments.com	SFSA (Sweden)
20/12/2006	Sirius Financial www.sirius-financial.net	FMA (Austria)
20/12/2006	Hong Kong International Trading Corporation www.intertradeshongkong.com	SFC (Hong Kong)
20/12/2006	Bankers Trust International www.bti-onlineplc.info	JFSC (Jersey)
20/12/2006	Standard Chattered Bank www.standardchatteredbank.co.uk	JFSC (Jersey)
20/12/2006	CTA Bank	AMF (France)
20/12/2006	DSB Singapore Pte. www.dsbsingapore.com	SFSA (Sweden)
20/12/2006	Novantae Capital Holdings www.novantae.com	FMA (Austria)
20/12/2006	Great Basin Scientific, Ltd. www.gbscience.com	SFSA (Sweden)
20/12/2006	Hunter William Associates www.hwilliamassociates.com	SFSA (Sweden)
20/12/2006	Strategic Capital Partners Portfolio Management AG www.strategiccapital.ch	SFSA (Sweden)
20/12/2006	Trust Group International / Trust Real Estate Investment Group LLC www.trustreinvest.com	SFSA (Sweden)
27/12/2006	Bankers Trust International www.bti-plconline.info http://btionline.info	FSC (Isle of Man)
27/12/2006	City Trust Bank http://citytrust.eb-k.com/	FSC (Isle of Man)
27/12/2006	Sirius Holding www.sirius-holdings.com	DFSA (Denmark)

Public warnings about unauthorised firms (continuation)

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Date	Company warned about	Regulator/supervisor
27/12/2006	www.edgfinance.org Equity Development Group (EDG)	FSC (Isle of Man)
27/12/2006	Jacobs & Burns www.jacobsburns.com	JFSC (Jersey)
27/12/2006	First City Merchant Bank	FSC (Isle of Man)
27/12/2006	John McGrath Allied Irish Bank, Plc AIB Private Banking	FSC (Isle of Man)

Source: CNMV.

Legislation annexes

A. Spanish legislation

Main legislation approved in Spain in 2006.

A.1 Securities market regulations

Secondary markets

- **Law 12/2006, dated 16 May**, which modified the consolidated text of the Legal Statute of the Insurance Compensation Consortium, approved through Royal Legislative Decree 7/2004, dated 29 October, and Law 24/1988, dated 28 July, governing the Securities Market.

This transposes article 6.9 of Directive 2003/6/EC, from the European Parliament and the Council, dated 28 January 2003, on inside information and market manipulation into the Spanish legal system along with articles 7-11 of Directive 2004/72/EC, from the Commission, dated 29 April 2004. This has led to a new article in the Securities Market Law setting forth the obligation for determined parties to notify the CNMV of any operations suspected of having used inside information or which constitute price fixing.

Elsewhere, the regulation of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S. A. or any other entity that could find itself in the same situation in the future was completed to provide greater flexibility in its operation.

Lastly, the system of significant holdings in companies that handle registration, clearing and settlement services of securities and Spanish secondary markets was clarified and unified.

- **Order EHA/1094/2006 of 6 April**, which implements the special characteristics applicable to official secondary markets of derivative financial instruments relating to energy.

The purpose of the Order is to regulate the specialities which, with regard to the general rules for the official secondary futures and financial options markets, will apply to official secondary markets for energy futures and options.

This objective defines the financial instruments that may be the object of trading on these markets. The involvement of the different sector regulators in

the process of authorisation of these markets is also determined in the Regulations that will govern their activity and the determination of the general conditions of negotiated trades. The minimum content of the market Regulations is established along with the approval and amendment system of the general conditions of negotiated trades and the way in which these must be placed at the public's disposal. Elsewhere, the specialities applicable to the management companies of these markets are regulated.

One new item of importance is the governing scheme of the industrial members of this market. To this end, the governing characteristics are determined and the conditions and procedure to acquire the status of market member are specified, along with the code of conduct and duties of information to which they are subject.

Along with the foregoing, some modifications were introduced into Order ECO/3235/2002, dated 5 December, which implements the specialities applicable to the official secondary markets for olive oil futures and options. Capital requirements are reduced, reference to the board of directors is changed and now refers to the governing body, and a special system of information for the industrial members is provided for. The purpose of these modifications is to make access to this market more attractive and thus drive its activity.

- **Order EHA/2573/2006, dated 12 July**, which modified article 4.2 of the MFAO, Sociedad Rectora del Mercado de Futuros del Aceite de Oliva, S.A.

The regulation of the industrial members of this market is introduced into the Regulations of the Mercado de Futuros del Aceite de Oliva, S.A. The requirements to be met are thus determined, as well as the market duty, viz., to trade directly on its own behalf or on behalf of group entities that engage indiscriminately in the production, marketing or distribution of olive oil.

Collective investment schemes

- **Order EHA/1199/2006, dated 25 April**, which implements the provisions set forth in the Regulations of Law 35/2003, dated 4 November, governing collective investment schemes, concerning hedge funds and funds of hedge funds and which enables the CNMV to incorporate different provisions.

One of the most significant new items of the IIC Regulations was the regulation of hedge funds and funds of hedge funds for the very first time in Spain.

This Order is particularly relevant as it enables the Spanish collective investment industry to operate with the fairly new hedge funds within the required criteria of government of laws, placing the principles of flexibility and investor protection on an equal footing. This therefore represents an effort to implement and include the legal system established for the IIC Regulations into the sphere of hedge funds.

For the basic objective of implementing the legal system of hedge funds and the funds of hedge funds, the investment and borrowing policy are the main targets. In this regard, it clears up the elements that should be included in the calculation of the borrowing limit as well as those that are excluded.

Certain aspects of the management companies and depositories are also determined, along with the system of assets given as security for the hedge funds.

- **Circular 1/2006, dated 3 May**, from the Comisión Nacional del Mercado de Valores, on hedge funds.

The Regulations of Law 35/2003, dated 4 November, governing Collective Investment Schemes (IICs), approved by Royal Decree 1309/2005, dated 4 November, regulated hedge funds for the very first time in Spain. This Circular details the regime applicable to these schemes.

Hedge funds are provided as products with broad investment flexibility, targeted at investors who, because of their greater experience and financial knowledge, require less protection. However, to enable small investors to also access this method of investment, the Circular regulates the funds of hedge funds, whose requirements of diversification and investment protection bring them closer to traditional collective investment schemes. The most significant aspects of the system put in place by this Circular are as follows:

- i. The dealings between management companies and financial brokers that provide financing and other services to hedge funds (known as prime brokers).
 - ii. Rules similar to those that apply to the ordinary IICs are established for prospectuses and periodic information. However the investor has to sign a written declaration of consent that proves they are aware of the particularities of the hedge funds and how these differ from ordinary schemes.
 - iii. Finally the funds of hedge funds are allowed to invest in the so-called managed accounts, understood as those structures that replicate the hedge fund investment portfolio.
- **Circular 2/2006, dated 27 June**, from the Comisión Nacional del Mercado de Valores, providing information on the foreign collective investment schemes filed with the CNMV registers.

This Circular, which repeals Circular 3/2003, dated 29 December, on information of the foreign IICs filed with the CNMV registers, clarifies the procedure applicable to the essential modifications in the offer of shares and holdings of non-harmonised foreign collective investment schemes, specifies the documentation to be sent to the CNMV in the event of amendments to the registered information and enables the investor to make enquiries and receive information through electronic means.

- **Circular 3/2006, dated 26 October**, from the Comisión Nacional del Mercado de Valores, on prospectuses on collective investment schemes.

This sets forth the new prospectus model that the collective investment schemes must publish, for the purpose of including new regulations concerning their structure, adapting it to the new contents laid down in the Collective Investment Scheme Act, its regulations and Directive 85/611/EEC.

Moreover, it also uses its proposal to continue to advance in the process of simplification and uniformity of information offered to investors in the prospectus, to enable the prospectus to be recognised as a real marketing instrument. New distribution of information is proposed, retaining the possibility of a simplified prospectus more in line with the investors' real needs, on the basis of a complete prospectus and as an extractable part of the same pursuant to the provisions of the new Collective Investment Scheme Act.

Elsewhere, for the purpose of avoiding dispersion of the regulations, this Circular includes all the rules concerning the prospectus of the IICs in a single text hitherto listed in Circulars 1/1999 and 1/2001, from the CNMV, for the purpose of simplification.

Financial conglomerates

- **Circular (Bank of Spain) 2/2006, dated 30 June**, governing modification of Circular 5/1993, dated 26 March, on the determination and control of minimum capital requirements.

Law 5/2005, dated 22 April, on supervision of financial conglomerates and through which other financial sector laws are modified, responds to two basic objectives: The establishment of an additional supervisory system for financial conglomerates and the review of sector regulations (banking, securities and insurance) in order to achieve suitable coherence between all of these and bring them into line with the new regulations governing financial conglomerates. The aforementioned law partially incorporated Directive 2002/87/EC, from the European Parliament and the Council, dated 16 December 2002, concerning complementary supervision of credit institutions, insurance companies and investment firms that belong to a financial conglomerate in to our internal legal system. Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, from the Council, and Directives 98/78/EC and 2000/12/EC, from the European Parliament and the Council, were modified as a result. This partial transposition was completed through Royal Decree 1332/2005, dated 11 November, implementing Law 5/2005.

The foregoing Law 5/2005 and the implementing regulations establish different requirements of additional supervision applicable to financial conglomerates and subject to the specific obligation of providing information to the supervisor of groups formed by banking, securities or insurance companies (referred to in the Circular as mixed groups), but which do not satisfy the requirement of significant sector diversification to be considered a financial conglomerate.

Within the framework of these obligations and in the exercise of the terms of reference that correspond as coordinator of different financial conglomerates and supervisor of the controlling company of the majority of mixed groups, this Circular modifies CBE 5/1993 in order to maintain the minimum information that the groups and companies must periodically file with the Bank of Spain. This replaces the former section 8 of CBE 5/1993, repealed by the aforementioned law and Royal Decree, in which different obligations of the former mixed but not consolidable groups were established.

- **Agreement dated 15 September 2006**, from the Board of the CNMV, with regard to the adaptation of the CIFRADOC/CNMV system to the certification services and recognised e-signature and creates the Electronic Register of the CNMV.

The Agreement encompasses regulation of the general criteria governing electronic presentation and subsequent processing with the recognised electronic signature of forms, requests and disclosures where the resolution or receipt of the same falls to this Commission, the determination of the applicable procedures, as well as the creation of an Electronic Register to record and receive the aforementioned forms and requests, in full accordance with Law 53/2003, dated 19 December, governing the electronic signature, and Law 24/2001, dated 27 December, governing tax, administrative and social order measures, article 68 of which amends articles 38 and 59 of Law 30/1992, dated 26 November, governing the legal system of Public Administrations and the Common Administrative Procedure, to promote e-government and its applicable regulations.

A.2 Other Spanish regulations that affect the securities markets

- **Law 36/2006, dated 29 November**, on prevention of tax fraud measures.

This law has led to a new drafting of article 108 of the Stock Market Law, concerning taxation of the transfer of securities, whether or not admitted onto an official secondary market, through stamp duty and VAT. Specific valuation rules for fixed assets are introduced for the purpose of calculating 50% of the companies' asset, which determines the onerous transfer of fixed assets as subject to stamp duty.

B. European legislation

B.1 Legislation approved by the European Parliament and Council in 2006

The following legislation was approved by the European Parliament and Council in 2006:

- **Directive 2006/48**, from the European Parliament and the Council, dated 14 June 2006, relating to the taking up and pursuit of the business of credit institutions (recast).

This Directive entails a redrafting of Directive 2000/12/EC, concerning access to and exercise of the activity of credit institutions. It mainly regulates the credit entities' capital requirements. The purpose of the Directive is to stimulate the improvement of management of credit entities' risks and thus ensure stability of the financial system. The requirement that entities hold a level of capital in accordance with their risk is a fundamentally prudential rule, as the capital represents the last line of defence against unexpected losses.

With regard to capital requirements, the Directive is based on three fundamental pillars: 1) the requirements for minimum capital in accordance with the risk of the company; 2) review of the capital requirements by the supervising authority, following dialogue between the supervisor and the entity in which the latter explains the evaluation carried out on its risks to the supervisor and 3) the information that the company must supply to the market to enable the market to carry out its job.

The Directive imposes capital requirements on consolidated groups of credit institutions, not necessarily exclusively comprising credit institutions. In addition, it enables countries to decide whether to impose capital requirements on credit institutions individually.

The regulation introduces modifications with regard to the former rules concerning calculation of the requirements through credit risk and through operating risk. There are three methods for measuring the operating risk: The basic indicator method, based on net revenue; the standard method, which looks at different capital requirements depending on the business areas of the institution, and the advanced measuring methods, based on internal risk measurement systems. The credit risk can be calculated either in accordance with the standardised method, or through internal and external risk ratings—carried out by the institutions themselves or through ratings agency, respectively, and reviewed by the supervisor—.

The rules governing concentration of risks in a single client or group of clients remain in force; special prudence and self-management based on respect of the principles of healthy bank management are imposed when a credit institution contracts risk exposure with its own parent company or with other subsidiaries of the parent company, away from any other consideration.

The Directive also regulates the liberty of setting-up and the liberty of service provision in the credit institution sector. The Directive retains the principle that the credit institutions must only obtain authorisation in one member state in order for the aforementioned authorisation to be valid throughout the European Union. It likewise sets forth the principle of supervision by the member state of origin, although the destination member state is in charge of the supervision of liquidity of branches and monetary policies.

- **Directive 2006/49/EC** from the European Parliament and the Council, dated 14 June 2006, on the capital adequacy of investment firms and credit institutions (recast).

This directive amends the regulations governing capital requirements for credit institutions and investment services firms. The Directive stems from the basic concepts set forth in Directive 2006/48, concerning access to and exercise of the activity of credit institutions, for example with regard to the definition of own funds. Both Directives are based on three pillars: 1) the requirements for minimum capital; 2) the review of the capital requirements by the supervising authority, following dialogue between the supervisor and the entity in which the latter explains the evaluation carried out on its risks to the supervisor and 3) the information that the company must supply to the market to enable the market to carry out its job.

The regulation, which is not applicable to groups made up solely of investment firms, but rather to groups formed by credit institutions and investment firms, regulates the minimum requirements for capital on a consolidated basis and likewise seeks to ensure that capital is properly distributed among the different components of the group. The Directive introduces some particularities with regard to Directive 2006/48, concerning access to and exercise of the activity of credit institutions, providing a complementary framework for supervision of the risks of position, settlement, balancing entry and exchange rate. It also sets different initial amounts of capital in accordance with the kind of activities that the investment firms are going to carry out.

The Directive enables countries to incorporate stricter rules than those set forth in the Directive.

B.2 Legislation approved by the European Commission

In 2006, the European Commission approved the following rules.

- **Directive 2006/73/EC** from the Commission, dated 10 August 2006, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

This regulation forms part of the so-called level 2, part of the MiFID (Directive 2004/39/EC). The aim of this rule is to detail the codes of conduct and organizational requirements that affect the investment firms and, to a degree, the credit institutions that provide investment services, away from the capital requirements.

The following aspects concerning the Directive merit closer attention:

Rules on the organizational structure of investment services firms. The Directive sets forth that investment services firms must establish a series of procedures to ensure compliance with regulations, risk management and internal audits. It likewise regulates outsourcing of activities by investment firms, by establishing certain conditions; in this regard, not all of the essential activities of the entity can be outsourced; the investment firm must supervise the activity of the service provider; the entity must be able to terminate the arrangement for outsourcing where necessary without detriment to the continuity of its provision of services and it must have emergency plans to this end; the outsourcing of the portfolio management activity and the deposit of securities in favour of entities from other countries is restricted, and the third-party service provider must be subject to prudential supervision, etc.

Rules governing conflicts of interest. The Directive sets forth that the entities must identify and manage their conflicts of interest and, wherever necessary, reveal these conflicts to their clients. The Directive underscores the need to supervise the organizational structures of the entities in order to evaluate the management of conflicts of interest, as well as the remuneration systems of the company. The incentives that the company may pay a third party or collect from a third party other than the client to whom the investment service is provided are also regulated.

Rules on the protection of securities, financial instruments and cash belonging to clients. Here, the Directive enables countries to set up additional measures of protection in benefit to clients. The entities are allowed to use the securities and financial instruments they hold on behalf of their clients, providing the clients authorises this, but the entities that hold monies deposited by clients cannot be used by these entities, with the exception of banks.

Rules on information to retail clients. The Directive lays down that the retail client must receive in-depth information on four large areas:

- The investment firm and services offered
- The securities and financial instruments contracted
- The measures of protection of the financial instruments and cash deposited by clients
- The pertinent costs and expenses

Rules on the principle of best execution. The Directive incorporates the requirement of the MiFID by virtue of which the entities must adopt all reasonable measures to obtain the best result possible for their clients on executing instructions.

Rules on client order handling. The Directive enables orders from different clients to be added together and pooled prior to being executed, but with certain conditions (the client's consent; that the aggregation is not globally detrimental to clients; that the executions are broken down equally afterwards). The pooling of orders is also permitted on the entity's own behalf or on behalf of clients. In the event of partial execution, the investment firm must allocate the related trades to the client in priority to the firm.

- **Commission Regulation (EC) No. 108/2006** dated 11 January 2006, which amends Regulation (EC) No. 1725/2003 through which certain International Accounting Standards are adopted.

This standard includes several modifications issued by the Board of International Accounting Standards (CNIC-IASB). In particular, the IASB modifies the IFRS 1, of take up, for the first time, of the International Financial Reporting Standards; the IFRS 6, on mining and evaluation of mineral resources; IAS 1, concerning information to be disclosed on capital; IAS 39, on recognition and valuation of financial instruments, and IFRS 4, on insurance contracts and financial surety contracts. A new regulation is likewise issued—the IFRS 7—, on financial instruments: Information to be disclosed, which replaces IAS 30 and partially IAS 32, and introduces new requirements to improve information shown in their financial statements on financial instruments. Finally, the Regulation includes an interpretation on electrical and electronic devices adopted by the Committee of Interpretations of International Financial Reporting Standards (CINIIF 6).

- **Commission Regulation (EC) No. 1287/2006**, dated 10 August 2006, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction

reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive.

This regulation forms part of the so-called level 2, part of the MiFID (Directive 2004/39/EC). The main aim of this Community Regulation is to set up some fully harmonised and detailed rules and requirements on transparency that regulate the information on transactions with securities and financial instruments, in order to ensure equivalent market conditions that facilitate cross-border operations.

The MiFID lays down different kinds of centres where securities and financial instruments can be traded: The regulated markets, the multilateral trading systems, the systematic internalisers and the internal clearance of orders by investment firms. The rupture of the order concentration principle at a single point has a cost in terms of fragmentation of liquidity, and there are efforts to counter this through rules of transparency that promote competition between the different trading platforms established by the MiFID. In this regard, the regulation details circumstances under which it may be necessary to make exceptions to the pre-trade transparency obligations, or the deferral of the post-trade transparency obligations. In the event that exemptions to the free-trade transparency requirements are extended, or authorisation is given to deferral of the post-trade transparency obligations, the competent authorities must dispense the same treatment to all regulated markets and multilateral trading systems. The regulation also requires member states to coordinate in the determination of the most liquid markets for each financial instrument admitted for trading on a regulated market, as the competent authority of the most liquid market must receive and disclose information on the operation carried out on these financial instruments.

Elsewhere, the Regulation also implements some provisions on the commodities derivatives markets.

- **Commission Regulation (EC) 1787/2006**, dated 4 December 2006, amending Commission Regulation (EC) 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

This Community Regulation introduces the requirement for historic financial information provided by the issuers of other countries in the prospectuses for public offerings or admission for listing of securities in a regulated market of a member state to be expressed in accordance with the IFRS or the national accounting standards of another country that are equivalent to these. Prior to this, and in a series of limited cases, Regulation (EC) No. 809/2004 exempted issuers from the obligation of reformulating the financial information records that had not been prepared in accordance with the IFRS or equivalent accounting standards of another country.

Elsewhere, the Regulation sets forth that the generally accepted accounting principles (PCGA) of the USA, Japan and Canada, taken globally, are equivalent to the IFRS adopted by community law. As a consequence, issuers are exempt from the obligation of reformulating the financial information records prepared in accordance with the accounting standards of the USA, Japan and Canada. In

a similar fashion, and for a transitory period of two years, issuers from other countries whose national authority has included a public undertaking and established a work schedule to try to achieve convergence between the IFRS and their generally accepted accounting principles are exempt from the obligation of reformulating their financial information records.

CNMV Organisation

Composition of the CNMV Board

President	Manuel Conthe Gutiérrez
Vice-President	Carlos Arenillas Lorente
Commissioners	Soledad Núñez Ramos
	José María Viñals Iñiguez ¹
	Julio Segura Sánchez ²
	Rosa Rodríguez Moreno ³
	María Soledad Abad Rico ⁴
Secretary	Javier Rodríguez Pellitero

Composition of the CNMV Executive Committee⁵

President	Manuel Conthe Gutiérrez
Vice-President	Carlos Arenillas Lorente
Commissioners	Julio Segura Sánchez
	Rosa Rodríguez Moreno
	María Soledad Abad Rico
Secretary	Javier Rodríguez Pellitero

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1. Deputy Governor of the Bank of Spain Appointed through Royal Decree 873/2006, dated 14 July. Replaces Gonzalo Gil García.
 2. Appointed through Order EHA/689/2006, dated 13 March. Replaces Juan Junquera González.
 3. Appointed through Order EHA/2123/2006, dated 28 June. Replaces Luis Perezagua Clamagiran.
 4. Appointed through Order EHA/701/2007, dated 23 March. Replaces Soledad Plaza y Jabat.
 5. Royal Decree 504/2003, dated 2 May, which regulates the CNMV Advisory Committee.

Composition of the CNMV Advisory Committee⁶

President	Carlos Arenillas Lorente
Secretary	Javier Rodríguez Pellitero

Members

Representatives of the members of the official secondary markets

Member	Sebastián Albella Amigo
Alternate	Ignacio Olivares Blanco

Member	Jaime Aguilar Fernández-Hontoria
Alternate	Manuel Ardanza Fresno

Member	José M ^a Antúnez Xaus
Alternate	Antonio Gallego González

Member	Ignacio Solloa Mendoza
Alternate	Luis Vía Fernández

Member	Francisco Oña Navarro
Alternate	Julio Alcántara Lera

Member	Ana Ibáñez Díaz-Bustamante
Alternate	---

Representatives of the issuers

Member	José M ^a Méndez Álvarez-Cedrón
Alternate	Juan Carlos Manzano-Monis López-Chicheri

Member	José Luis Alonso Iglesias
Alternate	M ^a Teresa Saez Ponte

Member	Ana Bartolomé Delicado
Alternate	Teresa Conesa Fábregues

Member	Juan Luis Sabater Navarro
Alternate	Luis Cortés Domínguez

Composition of the CNMV Advisory Committee (continuation)

Annexes
CNMV organisation

Representatives of the investors

Member	Manuel Pardos Vicente
Alternate	Ana Isabel Ceballo Sierra

Member	Pilar González de Frutos
Alternate	M ^a Aranzazu del Valle Schaan

Member	Antonio M ^a Malpica Muñoz
Alternate	José Manuel Pomarón Bagües

Member	Mariano Rabadán Forniés
Alternate	Ángel Martínez-Aldama Hervás

Representatives of the Autonomous Regions with an official secondary market

Basque Country

Member	Juan Miguel Bilbao Garai
Alternate	Miguel Bengoechea Romero

Catalonia

Member	Ferrán Sícart Ortí
Alternate	Josep María Sánchez i Pascual

Valencia

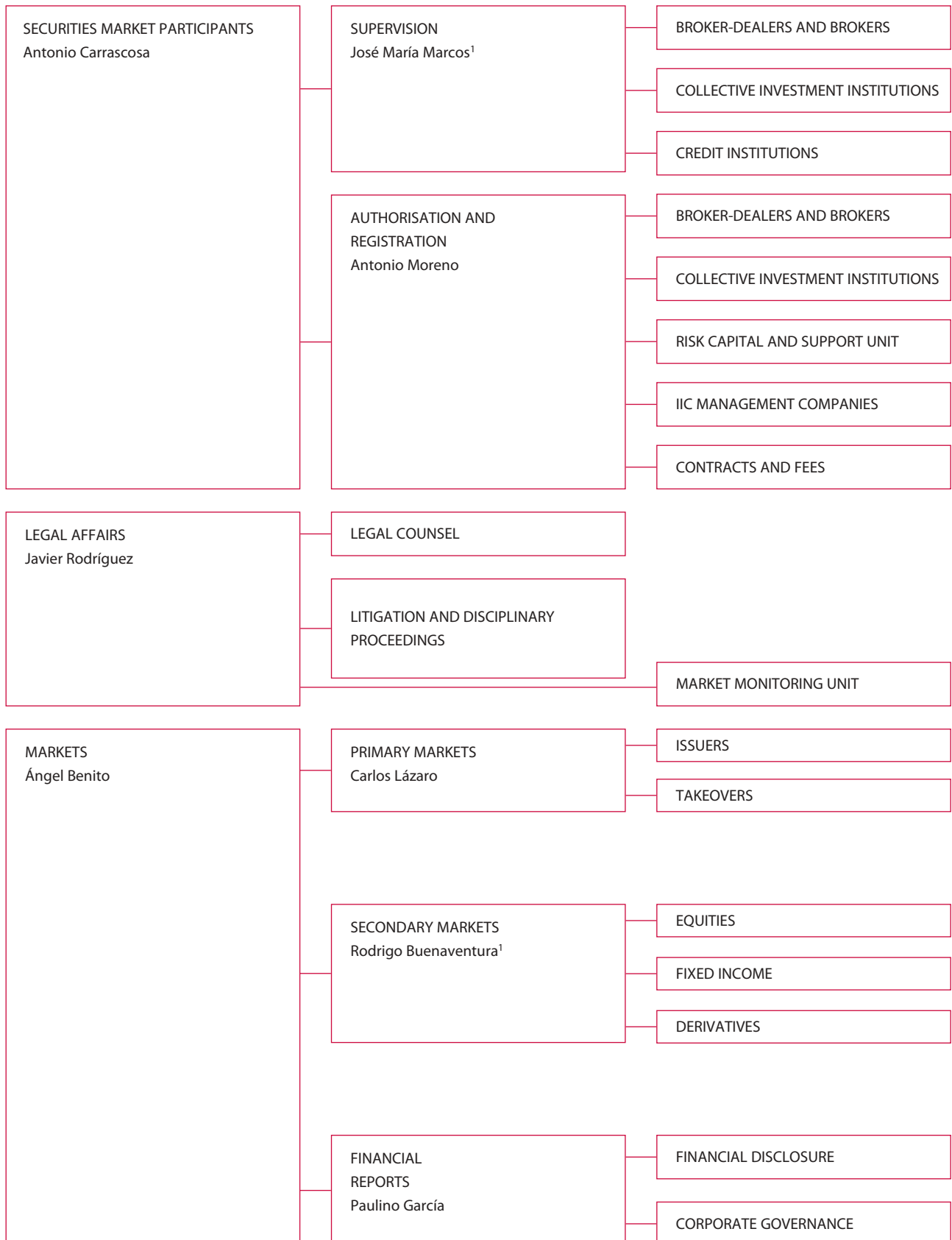
Member	Enrique Pérez Boada
Alternate	Nicolás Jannone Bellot

Directorates of the CNMV

Directorate-General

Directorate

Subdirectorate

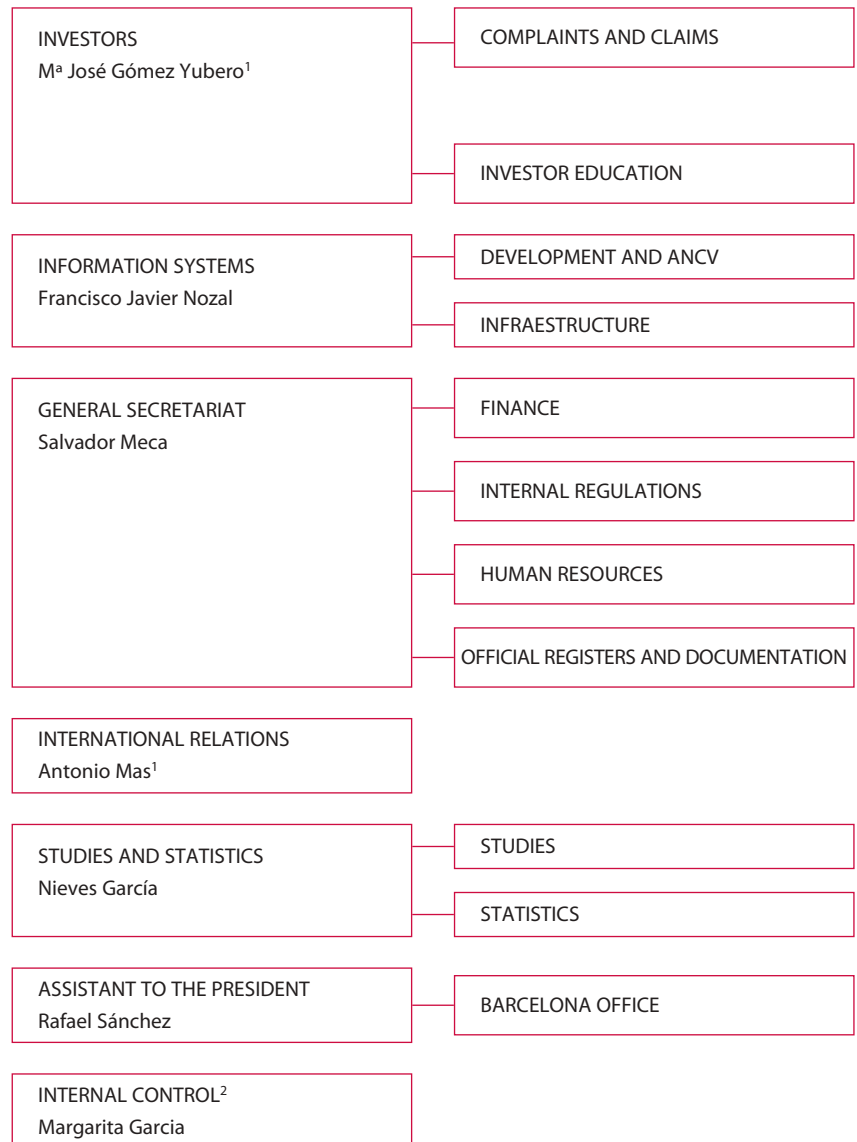


Directorates of the CNMV

Directorate-General

Directorate

Subdirectorate



1. From 1 March 2007.

2. Under article 41 of the CNMV Internal Regulations, this body reports directly to the CNMV Executive Committee.

